UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# SCHEDULE 13D

Under the Securities Exchange Act of 1934

CARENETWORK, INC.
(Name of Issuer)

COMMON STOCK, $.01 PAR VALUE
(Title of Class of Securities)

141725 1
(CUSIP No.)

Arthur P. Hipwell
Senior Vice President & General Counsel
Humana Inc.
500 West Main Street
Louisville, Kentucky 40202
(502) 580-1000
(Name, Address and Telephone Number of Person Authorized
to Receive Notices and Communications)

October 2, 1994
(Date of Event which requires filing of this Statement)

If the filing person has previously filed a Statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(b)(3) or (4), check the following box: ( )

Check the following box if a fee is being paid with the statement:
(X)

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).



1. Name of Reporting Person
S.S. or I.R.S. Identification No. of Above Person

Humana Inc.

61-0647538

2. Check the Appropriate Box if a Member of a Group

(a) ( )
(b) ( )

3. SEC Use Only

4. Source of Funds*

WC and/or BK

5. Check Box if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)

N/A

6. Citizenship or Place of Organization

Delaware - Humana Inc.

| NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH | | |
|---|---|---|
| | 7. | Sole Voting Power<br>902,043 - See Item 5 |
| | 8. | Shared Voting Power<br>-0- - See Item 5 |
| | 9. | Sole Dispositive Power<br>902,043 - See Item 5 |
| | 10. | Shared Dispositive Power<br>-0- - See Item 5 |

11. Aggregate Amount Beneficially Owned by Each Reporting Person

The Reporting Person is deemed to be the beneficial owner of an option to purchase 902,043 shares of Common Stock of CareNetwork, Inc. (see Item 5 and the Stock Option Agreement, filed herewith as an Exhibit 10.1).

12. Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares*

( )

13. Percent of Class Represented by Amount in Row (11)

16.6% (See Item 5)

14. Type of Reporting Person*

CO



Item 1. Security and Issuer.

Class of Equity Securities:
$.01 Par Value Common Stock

Name and address of principal executive office of the Issuer:

CareNetwork, Inc.
111 W. Pleasant Street
Milwaukee, WI 53212

Item 2. Identity and Background.

The Reporting Person is a Corporation, and the required information is as follows:

(a) The name of the Reporting Person is Humana Inc.

(b) The Reporting Person's business address is:
500 West Main Street, Louisville, Kentucky 40202.

(c) The Reporting Person's principal business is:
managed health care business.

(d) Neither Humana Inc. nor its executive officers and directors (see Exhibit 99) have been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) during the last five years.

(e) Neither Humana Inc. nor its executive officers and directors have been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which the Reporting Person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws during the last five years.

(f) Humana Inc. is a Delaware corporation and each of its officers and directors is a U.S. citizen.

Item 3. Source and Amount of Funds or Other Consideration.

Humana Inc. intends to finance the aggregate amounts (approximately $123 million) payable pursuant to Article II of the Agreement and Plan of Merger By and Among Humana Inc., HWS, Inc. and CareNetwork, Inc. dated October 2, 1994 ("Merger Agreement) filed herewith as Exhibit 10.2 and to the extent exercised, the exercise price of Humana's options with cash on hand and utilization of existing credit facilities as described in Section 4.06 of the Merger Agreement.

Humana Inc.'s Credit Agreement was filed as an Exhibit to the Company's 10-K for the year ended December 31, 1993. (See Item 6).

Item 4. Purpose of Transaction.

The Reporting Person and the Registrant have entered into a Merger Agreement (see Exhibit 10.2) pursuant to which the Reporting Person will acquire all of CareNetwork's outstanding shares of common stock for $25.25 per share aggregating approximately $123 million after giving effect to payments relating to outstanding options. The proposed transaction,



which has been approved by CareNetwork's board of directors, is subject to, among other things, approval by CareNetwork's shareholders as well as regulatory authorities. Completion of the transaction is anticipated by the end of the year.

Item 5. Interest in Securities of Issuer.

(a) As of the close of business on October 2, 1994, the Reporting Person may be deemed to be the beneficial owner of an aggregate of 902,043 shares of Common Stock of the Issuer (under Rule 13d-3(d)(1)(i) of the Securities Exchange Act of 1934 ("Exchange Act")) as a result of the ownership of options granted it by the Issuer, representing 16.6% of the Issuer's outstanding Common Stock (based on 4,532,883 shares of CareNetwork, Inc. outstanding at October 2, 1994, adjusted to deem

outstanding the shares of Common Stock subject to such options).

(b) The Reporting Person has the sole power to vote or direct the vote, and to dispose or to direct the disposition, of -0- shares of Common Stock of the Issuer, and 902,043 shares assuming the exercise of all options of the Reporting Person.

(c) Except as set forth herein, there have been no transactions by Humana Inc. in the common stock of CareNetwork, Inc. during the past 60 days.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

See Exhibit 10.2, the Merger Agreement, and Exhibit 10.1, the Stock Option Agreement, both of which are filed herewith and incorporated herein by reference.

Exhibit 10(x) to Humana Inc.'s Annual Report on Form 10-K is incorporated by reference herein.

Item 7. Material to be Filed as Exhibits. The following material will be filed as exhibits:

(1) Exhibit 10.1: Stock Option Agreement dated as of October 2, 1994 between CareNetwork, Inc. and Humana Inc.

(2) Exhibit 10.2: Agreement and Plan of Merger by and among Humana Inc., HWS, Inc. and CareNetwork, Inc. dated October 2, 1994.

(3) Exhibit 10.3: Humana Inc. $200 million Credit Agreement dated January 12, 1994, filed as Exhibit 10(x) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 is incorporated by reference herein.

(4) Exhibit 99: Officer and Director List of Humana Inc.



SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

HUMANA INC.

October 7, 1994

BY: /S/ ARTHUR P. HIPWELL
ARTHUR P. HIPWELL
SENIOR VICE PRESIDENT
AND GENERAL COUNSEL



EXHIBIT INDEX

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Exhibit 99: Officer and Director List of Humana Inc.

STOCK OPTION AGREEMENT

This STOCK OPTION AGREEMENT (the "Agreement") dated as of October 2, 1994, by and between CARENETWORK, INC., a Wisconsin corporation ("Issuer"), and HUMANA INC., a Delaware corporation ("Grantee").

WHEREAS, Issuer, Grantee and HWS, Inc., a Wisconsin corporation ("Sub") propose to enter into an Agreement and Plan of Merger dated as of the date hereof (the "Merger Agreement") providing for, among other things, Sub will merge with and into the Issuer (the "Merger"); and

WHEREAS, as a condition and inducement to Grantee's willingness to enter into the Merger Agreement, Grantee has requested that Issuer agree, and Issuer has agreed, to grant Grantee the Option (as defined below);

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein and in the Merger Agreement, Issuer and Grantee agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth herein, Issuer hereby grants to Grantee an irrevocable option (the "Option") to purchase up to 902,043 (as adjusted as set forth herein) shares (the "Option Shares") of Common Stock, $.01 par value per share ("Issuer Common Stock"), of Issuer at a purchase price of $25.25 per Option Share (the "Purchase Price").

2. Exercise of Option. (a) If not in material breach of the Merger Agreement, Grantee may exercise the Option, in whole or in part, at any time and from time to time following the occurrence of a Purchase Event (as defined below); provided that, except as provided in the last sentence of this Section 2(a), the Option shall terminate and be of no further force and effect upon the earliest to occur of (i) the Effective Time, (ii) 6 months after the first occurrence of a Purchase Event or (iii) termination of the Merger Agreement pursuant to section 8.01(a), section 8.01(b) or section 8.01(c) of the Merger Agreement prior to the occurrence of a Purchase Event; and, provided further, that any purchase of shares upon exercise of the Option shall be subject to compliance with applicable law. Notwithstanding the termination of the Option, Grantee shall be entitled to purchase those Option Shares with respect to which it has exercised the Option in accordance with the terms hereof prior to the termination of the Option.

(b) As used herein, a "Purchase Event" means any of the following events:

(i) Any person (other than Grantee or any subsidiary of Grantee) shall have commenced (as such term is defined in Rule 14d-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), or shall have filed a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to, a tender offer or exchange offer to purchase any shares of Issuer Common Stock such that, upon consummation of such offer, such person would own or control 25% or more of the then outstanding Issuer Common Stock, but only if at least 25% of the then outstanding Issuer Common Stock shall have been tendered and (A) a condition to the takedown of Issuer Common Stock in the tender offer or exchange offer shall be the termination of the Merger Agreement or abandonment of the Merger, (B) the person making the tender offer or exchange offer, whether before or after the making of the offer, shall have publicly announced its opposition to the Merger or an intention not to vote the Issuer Common Stock acquired upon consummation of the offer in favor of the Merger, or (C) the person making the tender offer or exchange offer, whether before or after making the offer, shall have proposed, publicly announced an intention to propose, or entered into an agreement to effect, an Acquisi-

tion Transaction (as defined below);

(ii) Issuer or any subsidiary of Issuer, without having received Grantee's or the Sub's prior written consent, shall have authorized, recommended, proposed or publicly announced an intention to authorize, recommend or propose, or entered into, an agreement with any person (other than Grantee or any subsidiary of Grantee) to (A) effect a merger, consolidation, joint venture or similar transaction involving Issuer or any of its subsidiaries, (B) sell, lease or otherwise dispose of assets or earning power of Issuer or its subsidiaries, in one or more transactions, representing 15% or more of the consolidated assets or earning power of Issuer and its subsidiaries or (C) issue, sell or otherwise dispose of (including by way of merger, consolidation, share exchange or any similar transaction) securities representing 25% or more of the voting power of Issuer or any of its subsidiaries, but, in all cases under this clause (ii), only if the transaction is conditioned upon, or results in, the termination of the Merger Agreement or the abandonment of the Merger (including, without limitation, as a result of anticipated regulatory impediments or otherwise) (any of the foregoing an "Acquisition Transaction," except that if Grantee or Sub has given its prior written consent to any such transaction, the transaction as to which Grantee or Sub has given its prior written consent shall not be an "Acquisition Transaction");

(iii) Any person (other than Grantee or any subsidiary of Grantee, any subsidiary of Issuer in a fiduciary capacity in the ordinary course of such subsidiary's business, any employee benefit plan or employee stock ownership plan of Issuer or any subsidiary of Issuer, or any person organized, appointed or established by Issuer or any subsidiary of Issuer for or pursuant to the terms of any such plan), alone or together with such person's "Affiliates" (as such term is defined in Rule 12b-2 under the Exchange Act) shall have acquired beneficial ownership (as such term is defined in Rule 13d-3 under the Exchange Act) or the right to acquire beneficial ownership of, or any "group" (as such term is defined under the Exchange Act, other than a group of which Grantee or any subsidiary of Grantee, any subsidiary of Issuer in a fiduciary capacity in the ordinary course of such subsidiary's business, any employee benefit plan or employee stock ownership plan of Issuer or any subsidiary of Issuer, or any person organized, appointed, or established by Issuer or any subsidiary of Issuer for or pursuant to the terms of any such plan is a member), shall have been formed which beneficially owns or has the right to acquire beneficial ownership of, 25% or more of the then outstanding Issuer Common Stock, but only if such person or group, whether before or after beneficial ownership of Issuer Common Stock is acquired or the group is formed, shall have (A) publicly announced its opposition to the Merger or an intention not to vote the Issuer Common Stock beneficially owned by the person or group in favor of the Merger, or (B) proposed, publicly announced an intention to propose, or entered into an agreement to effect, an Acquisition Transaction; or

(iv) The holders of Issuer Common Stock shall not have approved the Merger Agreement at the meeting of such shareholders held for the purpose of voting on the Merger Agreement, such meeting shall not have been held or shall have been cancelled (and not rescheduled) prior to termination of the Merger Agreement, or Issuer's Board of Directors shall have withdrawn or modified in a manner materially adverse to Grantee the recommendation of Issuer's Board of Directors that Issuer's shareholders vote in favor of and approve the Merger and adopt the Merger Agreement, in each case after any person (other than Grantee or any subsidiary of Grantee) shall have (A) publicly announced a proposal, to engage in an Acquisition Transaction or (B) filed an application (or given a notice), whether in draft or in final form, with any Governmental Entity (as defined below) for approval to engage in an Acquisition Transaction; or

(v) Issuer terminates the Merger Agreement pursuant to section 8.01(e) of the Merger Agreement.

As used in this Agreement, "person" shall have the meaning specified in Sections 3(a)(9) and 13(d)(3) of the Exchange Act.

(c) In the event Grantee wishes to exercise the Option, it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") specifying (i) the total number of Option Shares it intends to purchase pursuant to such exercise and (ii) a place and date not earlier than three business days nor later than 15 business days from the Notice Date for the closing of such purchase (the "Closing Date"); provided that if the closing of the purchase and sale pursuant to the Option (the "Closing") cannot be consummated by reason of any applicable judgment, decree, order, law or regulation, the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which such restriction on consummation has expired or been terminated; and provided further, without limiting the foregoing, that if prior notification to or approval of any Federal or state court, administrative agency or commission or other governmental authority or instrumentality (a "Governmental Entity") is required in connection with such purchase, Grantee shall promptly file the required notice or application for approval and shall expeditiously process the same (and Issuer shall cooperate with Grantee in the filing of any such notice or application and the obtaining of any such approval), and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which, as the case may be, (x) any required notification period has expired or been terminated or (y) such approval has been obtained, and in either event, any requisite waiting period has passed.

(d) Notwithstanding Section 2(c), in no event shall any Closing Date be more than 18 months after the related Notice Date, and if the Closing Date shall not have occurred within 18 months after the related Notice Date due to the failure to obtain any such required approval, the exercise of the Option effected on the Notice Date shall be deemed to have expired.

3. Payment and Delivery of Certificates. (a) On each Closing Date, Grantee shall pay to Issuer in immediately available funds by wire transfer to a bank account designated by Issuer an amount equal to the Purchase Price multiplied by the Option Shares to be purchased on such Closing Date.

(b) At each Closing, simultaneously with the delivery of immediately available funds as provided in Section 3(a), Issuer shall deliver to Grantee a certificate or certificates representing the Option Shares to be purchased at such Closing, which Option Shares shall be free and clear of all liens, claims (except as set forth in Wisconsin Statutes section 180.0622(2)(b), as interpreted), charges and encumbrances of any kind whatsoever, and Grantee shall deliver to Issuer a letter agreeing that Grantee shall not offer to sell or otherwise dispose of such Option Shares in violation of applicable law or the provisions of this Agreement. If at the time of issuance of any Option Shares pursuant to an exercise of all or part of the Option hereunder, Issuer shall have issued any rights to acquire any preferred shares of Issuer, then each Option Share issued pursuant to such exercise shall also represent rights with terms substantially the same as and at least as favorable to Grantee as are provided under any "rights agreement" or any similar agreement then in effect.

(c) Certificates for the Option Shares delivered at each Closing shall be endorsed with a restrictive legend that shall read substantially as follows:

> THE TRANSFER OF THE STOCK REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO RESTRICTIONS ARISING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND PURSUANT TO THE TERMS OF A STOCK OPTION AGREEMENT DATED AS OF OCTOBER 2, 1994. A COPY OF SUCH AGREEMENT WILL BE PROVIDED TO THE HOLDER HEREOF WITHOUT CHARGE UPON RECEIPT BY

THE ISSUER OF A WRITTEN REQUEST THEREFOR.

It is understood and agreed that the above legend shall be removed by delivery of substitute certificate(s) without such legend if Grantee shall have delivered to Issuer a copy of a letter from the staff of the Securities and Exchange Commission, or an opinion of counsel in form and substance reasonably satisfactory to Issuer and its counsel, to the effect that such legend is not required for purposes of the Securities Act.

4. Representations and Warranties of Issuer. Issuer hereby represents and warrants to Grantee as follows:

(a) Due Authorization. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Issuer. This Agreement has been duly executed and delivered by Issuer.

(b) Authorized Stock. Issuer has taken all necessary corporate and other action to authorize and reserve and, subject to obtaining the governmental and other approvals and consents referred to herein, to permit it to issue, and, at all times from the date hereof until the obligation to deliver Issuer Common Stock upon the exercise of the Option terminates, will have reserved for issuance, upon exercise of the Option, shares of Issuer Common Stock necessary for Grantee to exercise the Option, and Issuer will take all necessary corporate action to authorize and reserve for issuance all additional shares of Issuer Common Stock or other securities that may be issued pursuant to Section 6 upon exercise of the Option. The shares of Issuer Common Stock to be issued upon due exercise of the Option, including all additional shares of Issuer Common Stock or other securities that may be issuable pursuant to Section 6, upon issuance pursuant hereto, shall be duly and validly issued, fully paid and nonassessable (except as set forth in Wisconsin Statutes section 180.0622(2)(b) as interpreted), and shall be delivered free and clear of all liens, claims, charges and encumbrances of any kind or nature whatsoever, including any preemptive rights of any shareholder of Issuer.

(c) No Conflicts. Except as disclosed pursuant to the Merger Agreement, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not result in any violation of any provision of the Articles of Incorporation or Bylaws of Issuer or any subsidiary of Issuer or, subject to obtaining any approvals or consents contemplated hereby, result in any violation of any loan or credit agreement, note, mortgage, indenture, lease, employee benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, applicable to Issuer or any subsidiary of Issuer or their respective properties or assets which such violation would have a material adverse effect on Issuer.

5. Representations and Warranties of Grantee. Grantee hereby represents and warrants to Issuer that:

(a) Due Authorization. Grantee has all requisite corporate power and authority to enter into this Agreement and, subject to any approvals or consents referred to herein, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Grantee. This Agreement has been duly executed and delivered by Grantee and constitutes a valid and binding obligation of Grantee, enforceable in accordance with its terms.

(b) No Conflicts. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, result in any violation pursuant to any provision of the Articles of Incorporation or Bylaws of Grantee or any subsidiary of Grantee or, subject to obtaining any approvals or consents contemplated hereby, result in any violation of any loan or credit agreement, note, mortgage, indenture, lease, employee benefit plan or other agreement, obligation, instrument,

permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Grantee or any subsidiary of Grantee or their respective properties or assets which such violation would have a material adverse effect on Grantee.

(c) Purchase Not for Distribution. Any Option Shares or other securities acquired by Grantee upon exercise of the Option will not be taken with a view to the public distribution thereof and will not be transferred or otherwise disposed of except in a transaction registered or exempt from registration under the Securities Act.

6. Adjustment upon Changes in Capitalization, etc. (a) In the event of any change in Issuer Common Stock by reason of a stock dividend, split-up, spin-off, recapitalization, combination, exchange of shares or similar transaction, the type and number of shares or securities subject to the Option shall be adjusted appropriately, and proper provision shall be made in the agreements governing such transaction, so that Grantee shall receive upon exercise of the Option the number and class of shares or other securities or property that Grantee would have received in respect of Issuer Common Stock if the Option had been exercised immediately prior to such event, or the record date therefor, as applicable. Whenever the number of shares of Issuer Common Stock purchasable upon exercise of the Option is adjusted as provided in this Section 6, the Purchase Price shall be adjusted by multiplying the Purchase Price by a fraction, the numerator of which shall be equal to the number of shares of Issuer Common Stock purchasable prior to the adjustment and the denominator of which shall be equal to the number of shares of Issuer Common Stock purchasable after the adjustment. If any additional shares of Issuer Common Stock are issued after the date of this Agreement (other than pursuant to an event described in the first sentence of this Section 6(a)), the number of shares of Issuer Common Stock subject to the Option shall be adjusted so that, after such issuance, it equals 19.9% of the number of shares of Issuer Common Stock then issued and outstanding, without giving effect to any shares subject to or issued pursuant to the Option; provided that the number of shares of Issuer Common Stock subject to the Option shall only be issued to the extent Issuer then has available authorized but unissued and unreserved shares of Issuer Common Stock.

(b) In the event that Issuer shall enter into an Agreement (i) to consolidate with or merge into any person, other than Grantee or one of its subsidiaries, and shall not be the continuing or surviving corporation of such consolidation or merger, (ii) to permit any person, other than Grantee or one of its subsidiaries, to merge into Issuer and Issuer shall be the continuing or surviving corporation, but, in connection with such merger, the then outstanding shares of Issuer Common Stock shall be changed into or exchanged for stock or other securities of Issuer or any other person or cash or any other property, or then outstanding shares of Issuer Common Stock shall after the merger represent less than 50% of the outstanding shares and share equivalents of the merged company, or (iii) to sell, lease or otherwise transfer assets of Issuer or any of its subsidiaries, in one or more transactions, representing more than 50% of the consolidated assets or earning power of Issuer and its subsidiaries to any person (other than Grantee or one of its subsidiaries), then, and in each such case, the agreement governing such transactions shall make proper provision so that the Grantee may, in its reasonable discretion, (x) retain the Option to purchase the Option Shares or (y) convert the Option into the right to receive, at the election of Grantee (either from the Acquiring Corporation as defined in Section 6(c)) or from any person that controls the Acquiring Corporation, the number and class of shares, other securities, property, or cash that Grantee would have received in respect of the Option Shares if the Option had been exercised and the Option Shares had been issued to Grantee immediately prior to the consummation of such transaction, the distribution of the proceeds thereof to Issuer's shareholders, or the record date therefor, as applicable.

(c) For purposes herein, "Acquiring Corporation" means

(i) the continuing or surviving corporation of a consolidation or merger involving Issuer in which Issuer is not the continuing or surviving corporation, (ii) Issuer in a merger in which Issuer is the continuing or surviving corporation and (iii) the transferee of more than 50% of the consolidated assets or earning power of Issuer and its subsidiaries.

7. Replacement of Options. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer will execute and deliver a new Agreement of like tenor and date.

8. Listing; Other Action. (a) Issuer shall, at its expense, use its reasonable best efforts to cause the Option Shares to be approved for listing on the NASDAQ National Market System, subject to notice of issuance, as promptly as practicable following the date of this Agreement, and will provide prompt notice to the NASDAQ National Market System of the issuance of each Option Share, unless the delivery of the Option Shares can be satisfied with shares of Issuer Common Stock held in treasury by Issuer.

(b) Issuer shall use reasonable efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary and proper under applicable laws and regulations to consummate and make effective the transactions contemplated hereunder, including, without limitation, using reasonable efforts to obtain all licenses, permits, consents, approvals, authorizations, qualifications and order of Governmental Entities. Without limiting the generality of the foregoing, Issuer shall when required in order to effect the transactions contemplated hereunder make all filings and submissions under the HSR Act and with the Federal HMO Act and the Wisconsin Insurance Laws (as such terms are defined in the Merger Agreement) as promptly as practicable.

9. Registration. Upon the request of Grantee at any time within two years of the first Closing, Issuer agrees (i) to effect, as promptly as practicable, one registration under the Securities Act covering any part or all (as may be requested by Grantee) of the Option Shares or other securities that have been acquired by or are issuable to Grantee upon exercise of the Stock Option, and to use reasonable efforts to qualify such Option Shares or other securities under any applicable state securities laws and (ii) to include any part or all of the Option Shares or such other securities in any registration statement for common stock filed by Issuer under the Securities Act in which such inclusion is permitted under applicable rules and regulations, and to use reasonable efforts to keep such registration described in clauses (i) and (ii) effective for a period equal to the lesser of six months or until such shares have been sold. If the managing underwriter of a proposed offering of securities by Issuer shall advise Issuer in writing that, in the reasonable opinion of the managing underwriter, the distribution of the Option Shares requested by Grantee to be included in a registration statement concurrently with securities being registered for sale by Issuer would adversely affect the distribution of such securities by Issuer, then Issuer shall either (i) include such Option Shares in the registration statement, but Grantee shall agree to delay the offering and sale for such period of time as the managing underwriter may reasonably request (provided that Grantee may at any time withdraw its request to include Option Shares in such offering) or (ii) include such portion of the Option Shares in the registration statement as the managing underwriter advises may be so included for sale simultaneously with sales by Issuer. The registrations effected under this Section 9 shall be effected at Issuer's expense except for underwriting commissions allocable to the Option Shares and the fees and disbursements of Grantee's counsel. Issuer shall indemnify and hold harmless Grantee, its affiliates and controlling persons and their respective officers, directors, agents and representatives from and against any and all losses, claims, damages, liabilities and expenses (including, without limitation, all out-of-pocket expenses, investigation

expenses, expenses incurred with respect to any judgment and fees and disbursements of counsel and accountants) arising out of or based upon any statements contained in, or omissions or alleged omissions from, each registration statement (and related prospectus) filed pursuant to this Section 9; provided, however, that Issuer shall not be liable in any such case to Grantee or any affiliate or controlling person of Grantee or any of their respective officers, directors, agents or representatives to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or omission or alleged omission made in such registration statement or prospectus in reliance upon, and in conformity with, written information furnished to Issuer with respect to it specifically for use in the preparation thereof by Grantee, such affiliate, controlling person, officer, director, agent or representative, as the case may be.

10. Miscellaneous. (a) Expenses. Except as otherwise provided in Section 9, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants and counsel.

(b) Waiver and Amendment. Any provision of this Agreement may be waived in writing at any time by the party that is entitled to the benefits of such provision. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the parties hereto.

(c) Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Wisconsin without regard to any applicable conflicts of law rules.

(d) Descriptive Headings. The descriptive headings contained herein are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

(e) Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, by facsimile (with confirmation), sent by overnight express or mailed, by registered or certified mail, return receipt requested, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to Issuer to: CareNetwork, Inc.<br>111 W. Pleasant Street<br>Milwaukee, Wisconsin 53212<br>Attn: Elwood I. Kleaver, Jr.<br>President and Chief<br>Executive Officer<br>Facsimile No.: (414) 223-0168

With a copy to: Reinhart, Boerner, Van Deuren,<br>Norris & Rieselbach, s.c.<br>1000 North Water Street<br>Suite 2100<br>Milwaukee, Wisconsin 53202<br>Attn: James M. Bedore<br>Facsimile No.: (414) 298-8097

If to Grantee to: Humana Inc.<br>500 W. Main Street<br>Louisville, Kentucky 40202<br>Attn: W. Roger Drury,<br>Senior Vice President and<br>Chief Financial Officer<br>Facsimile No.: (502) 580-1690

With a copy to: Hirn Doheny Reed & Harper<br>2000 Meidinger Tower<br>Louisville, Kentucky 40202<br>Attn: Robert B. Vice

Facsimile No.: (502) 585-2207

(f) Counterparts. This Agreement and any amendments hereto may be executed in two counterparts, each of which shall be considered one and the same agreement and shall become effective when both counterparts have been signed by each of the parties and delivered to the other party, it being understood that both parties need not sign the same counterpart.

(g) Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder or under the Option shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other party, except that Grantee may assign this Agreement to a wholly owned subsidiary of Grantee. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

(h) Further Assurances. In the event of any exercise of the Option by Grantee, Issuer and Grantee shall execute and deliver all of the documents and instruments and take all other action that may be reasonably necessary in order to consummate the transactions provided for by such exercise.

(i) Specific Performance. The parties hereto agree that this Agreement may be enforced by either party through specific performance, injunctive relief and other equitable relief. Both parties further agree to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such equitable relief and that this provision is without prejudice to any other rights that the parties hereto may have for any failure to perform this Agreement.

(j) Entire Agreement; No Third-Party Beneficiary; Severability. Except as otherwise set forth in the Merger Agreement, this Agreement (including the Merger Agreement and the other documents and instruments referred to herein and therein) (i) constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and (ii) is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or a federal or state regulatory agency to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated. If for any reason such court or regulatory agency determines that the Option does not permit Grantee to acquire the full number of shares of Issuer Common Stock as provided in Section 2 (as adjusted pursuant to Section 6), it is the express intention of Issuer to allow Grantee to acquire or to require Issuer to repurchase such lesser number of shares as may be permissible without any amendment or modification hereof.

IN WITNESS WHEREOF, Issuer and Grantee have caused this Stock Option Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CARENETWORK, INC.

By: /s/ Elwood I. Kleaver
Elwood I. Kleaver, Jr., President
and Chief Executive Officer

("Issuer")

HUMANA INC.

By: /s/ Karen A. Coughlin
Karen A. Coughlin,

Senior Vice President

("Grantee")

AGREEMENT AND PLAN OF MERGER

By and Among

HUMANA INC.,

HWS, INC

and

CARENETWORK, INC.

October 2, 1994

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THIS AGREEMENT AND PLAN OF MERGER dated as of

October 2, 1994 (the "Agreement"), is made and entered into among Humana Inc., a Delaware corporation ("Acquiror"), HWS, Inc, a Wisconsin corporation and a wholly-owned subsidiary of Acquiror ("Acquiror Sub"), and CareNetwork, Inc., a Wisconsin corporation (the "Company").

## RECITAL

The respective Boards of Directors of Acquiror, Acquiror Sub and the Company have determined that it is advisable and in the best interests of the respective corporations and their shareholders that Acquiror Sub be merged with and into the Company in accordance with the Wisconsin Business Corporation Law (the "Wisconsin Law") and the terms of this Agreement, pursuant to which the Company will be the surviving corporation and will become a wholly-owned subsidiary of Acquiror (the "Merger").

## AGREEMENTS

In consideration of the representations, warranties, covenants and agreements set forth in this Agreement, the parties agree:

## ARTICLE I

## THE MERGER

1.01 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Wisconsin Law, at the Effective Time, Acquiror Sub shall be merged with and into the Company. As a result of the Merger, the separate corporate existence of Acquiror Sub shall cease and the Company shall continue as the surviving corporation of the Merger (the "Surviving Corporation"). Acquiror Sub and the Company are sometimes collectively referred to in this Agreement as the "Constituent Corporations."

1.02 Effective Time. As promptly as practicable after the satisfaction or, if permissible, waiver of the conditions set forth in Article VII, the parties shall cause the Merger to be consummated by filing articles of merger (the "Articles of Merger") with the Secretary of State of the State of Wisconsin in such form as required by, and executed in accordance with, the relevant provisions of the Wisconsin Law and shall take all such further actions as may be required by law to make the Merger effective upon the issuance of a certificate of merger by the Secretary of State of the State of Wisconsin (the date and time of such issuance being the "Effective Time"); provided, however, that the Effective Time shall not be earlier than December 1, 1994.

1.03 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the Wisconsin Law. Without limiting the generality of, and subject to the provisions of, the Wisconsin Law, at the Effective Time, except as otherwise provided in this Agreement, all the property, interests, assets, rights, privileges, immunities, powers and franchises of Acquiror Sub and the Company shall vest in the Surviving Corporation, and all debts, liabilities, duties and obligations of Acquiror Sub and the Company shall become the debts, liabilities, duties and obligations of the Surviving Corporation.

1.04 Articles of Incorporation; By-Laws. At the Effective Time, the Articles of Incorporation, as amended by the amendments thereto set forth in Exhibit 1.04 (which amendments shall become effective only at the Effective Time), and the By-Laws of Acquiror Sub shall be the Articles of Incorporation and the By-Laws of the Surviving Corporation. The name of the Surviving Corporation shall be HWS, Inc.

1.05 Directors and Officers. The directors of Acquiror Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation and By-Laws of the Surviving Corporation, and the officers of Acquiror Sub immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

1.06 Taking Necessary Action; Further Action. Acquiror, Acquiror Sub and the Company, respectively, shall each use its reasonable

efforts to take all such action as may be necessary or appropriate to effectuate the Merger under the Wisconsin Law at the time specified in section 1.02. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all properties, interests, assets, rights, privileges, immunities, powers and franchises of either of the Constituent Corporations, the officers of the Surviving Corporation are fully authorized in the name of each Constituent Corporation or otherwise to take, and shall take, all such lawful and necessary action.

1.07 The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") will take place at the offices of Reinhart, Boerner, Van Deuren, Norris & Rieselbach, s.c., 1000 North Water Street, Milwaukee, Wisconsin 53202, or at such other place as the parties hereto shall mutually agree, and will be effective at the Effective Time.

ARTICLE II

CONVERSION OF SECURITIES

2.01 Conversion of Securities. At the Effective Time by virtue of the Merger and without any further action on the part of Acquiror, Acquiror Sub, the Company, the Surviving Corporation or the holders of any of the following securities:

(a) each share of the common stock $.01 par value, of the Company ("Company Common Stock") issued and outstanding immediately prior to the Effective Time (other than (i) shares of Company Common Stock owned by Acquiror, Acquiror Sub or the Company or any direct or indirect subsidiary of Acquiror, Acquiror Sub or the Company and (ii) any Dissenting Shares (as defined in section 2.02)) shall be canceled and extinguished and be converted into and become a right to receive a cash payment of $25.25 per share, without interest (the "Merger Consideration");

(b) each share of Company Common Stock issued and outstanding immediately prior to the Effective Time and owned by Acquiror, Acquiror Sub or the Company or any direct or indirect subsidiary of Acquiror, Acquiror Sub or the Company shall be canceled and extinguished and no payment shall be made with respect thereto; and

(c) each share of common stock, $.01 par value, of Acquiror Sub issued and outstanding immediately prior to the Effective Time shall be converted into one fully paid and nonassessable share of common stock, $.01 par value, of the Surviving Corporation ("Surviving Corporation Common Stock").

2.02 Dissenting Shares.

(a) Notwithstanding anything in this Agreement to the contrary, if sections 180.1301 through 180.1331 of the Wisconsin Law ("Subchapter XIII") shall be applicable to the Merger, shares of Company Common Stock that are issued and outstanding immediately prior to the Effective Time and which are held by shareholders who have not voted such shares in favor of the Merger, who shall have delivered, prior to any vote on the merger, a written objection to the Merger in the manner provided in Subchapter XIII and who as of the Effective Time, shall not have effectively withdrawn or lost such right to dissenters' rights ("Dissenting Shares") shall not be converted into or represent a right to receive the Merger Consideration pursuant to section 2.01, but the holders thereof shall be entitled only to such rights as are granted by Subchapter XIII. Each holder of Dissenting Shares who becomes entitled to payment for such shares pursuant to Subchapter XIII shall receive payment therefor from the Surviving Corporation in accordance with the Subchapter XIII; provided, however, that if any such holder of Dissenting Shares shall have effectively withdrawn such holder's demand for appraisal of such shares or lost such holder's right to appraisal and payment of such shares under Subchapter XIII, such holder or holders (as the case may be) shall forfeit the right to appraisal of such shares and each such share shall thereupon be deemed, as of the Effective Time, to have been canceled, extinguished and converted into and represent the right to receive payment from the Surviving Corporation of the Merger Consideration as provided in section 2.01.

(b) The Company shall give Acquiror (i) prompt notice of any written demand for fair value, any withdrawal of a demand for fair value and any other instrument served pursuant to Subchapter XIII received by the Company, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for fair value under such Subchapter XIII. The Company shall not, except with the prior written consent of Acquiror, voluntarily make any payment with respect to any demand for fair value or offer to settle or settle any such demand.

2.03 Exchange of Certificates.

(a) Prior to the Effective Time, Acquiror shall designate a bank or trust company (the "Exchange Agent") to act as exchange agent in effecting the exchange of the Merger Consideration for certificates representing shares of Company Common Stock entitled to payment pursuant to section 2.01 (the "Certificates"). Immediately prior to the Effective Time, Acquiror shall deposit with the Exchange Agent an amount equal to the aggregate Merger Consideration (assuming there are no Dissenting Shares). The Exchange Agent shall hold such sums in escrow for the purposes set forth in section 2.01(b).

(b) Promptly after the Effective Time, the Exchange Agent shall mail to each record holder of Certificates a letter of transmittal and instructions for use in surrendering Certificates and receiving the applicable Merger Consideration therefor. The form of the transmittal letter shall have been prepared by Acquiror, subject to the approval of the Company, prior to the Effective Time. Upon the surrender of each Certificate, together with such letter of transmittal duly executed and completed in accordance with the instructions thereto, the holder of such Certificate shall be entitled to receive in exchange therefor an amount equal to the applicable Merger Consideration multiplied by the number of shares of Company Common Stock represented by such Certificate, and such Certificate shall be canceled. Until so surrendered and exchanged, each such Certificate shall represent solely the right to receive an amount equal to the Merger Consideration multiplied by the number of shares of Company Common Stock represented by such Certificate. No interest shall be paid or accrued on the Merger Consideration upon the surrender of the Certificates. If any Merger Consideration is to be paid to a person other than the person in whose name the Certificate surrendered in exchange therefor is registered, it shall be a condition to such exchange that the person requesting such exchange shall pay to the Exchange Agent any transfer or other similar taxes required by reason of the payment of such Merger Consideration to a person other than the registered holder of the Certificate surrendered, or such person shall establish to the satisfaction of the Exchange Agent that such tax has been paid or is not applicable. Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to a holder of shares of Company Common Stock for any Merger Consideration delivered to a public official pursuant to applicable abandoned property, escheat and similar laws.

(c) Promptly following the date which is 180 days after the Effective Time, the Exchange Agent's duties shall terminate and any portion of the sum not disbursed pursuant to section 2.01(b) shall be released to the Surviving Corporation. Thereafter, each holder of a Certificate may surrender Certificates to the Surviving Corporation and (subject to applicable abandoned property, escheat and similar laws) receive in exchange therefor an amount equal to the Merger Consideration multiplied by the number of shares of Company Common Stock represented by such Certificate, without any interest thereon, but shall have no greater rights against the Surviving Corporation than may be accorded to general creditors of the Surviving Corporation.

(d) After the Effective Time there shall be no transfers on the stock transfer books of the Surviving Corporation of any shares of Company Common Stock. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Exchange Agent, they shall be canceled and exchanged for the Merger Consideration, as provided in this Article II, subject to applicable law in the case of Dissenting Shares.

2.04 Stock Options. At the Effective Time, each outstanding option to purchase shares of Company Common Stock (a "Company Stock Option") issued pursuant to the Company's Executive Stock Option Plan or the Company's Outside Directors' Stock Option Plan (together, the "Company Stock Plans") shall be canceled and extinguished

and be converted into and become the right to receive a cash payment equal in amount to the difference between (i) the Merger Consideration and (ii) the exercise price of such Company Stock Option. At Closing, the Surviving Corporation shall pay out such amount, without interest, on each Company Stock Option to the extent vested at the Effective Time (including those that vest solely as a result of the Merger).

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The term "Company Material Adverse Effect" as used in this Agreement shall mean any change or effect that, individually or when taken together with all other such changes or effects, is materially adverse to the condition (financial or otherwise), results of operations, businesses, properties, assets, or liabilities of the Company and its Subsidiaries, taken as a whole; provided, however, that the occurrence of any or all of the changes or events described on Schedule 3.00(a) shall not, individually or in the aggregate, constitute a "Company Material Adverse Effect."

The term "Affiliate" as used in this Agreement shall mean, with respect to any Person, a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the first mentioned Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management or policies of a Person whether through the ownership of stock or as trustee or executor, by contract or credit arrangement or otherwise.

The term "Person" as used in this Agreement shall mean an individual, corporation, partnership, association, trust, unincorporated organization, other entity or group (as defined in section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act")).

The term "Subsidiary" (or its plural) as used in this Agreement with respect to the Company, Acquiror, the Surviving Corporation or any other person shall mean any corporation, partnership, joint venture or other legal entity of which the Company, Acquiror, the Surviving Corporation or such other Person, as the case may be (either alone or through or together with any other Subsidiary), owns, directly or indirectly, greater than 50% of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

With respect to any representation, warranty or statement of the Company in this Agreement that is qualified by or to the Company's knowledge, such knowledge shall be deemed to exist only if, at the time as of which such representation, warranty or statement was made, any of the individuals listed on Schedule 3.00(b) had actual knowledge of the matter to which such qualification applies.

Except as set forth in the disclosure schedules delivered by the Company to Acquiror and Acquiror Sub prior to the execution of this Agreement, the Company makes the following representations and warranties to Acquiror and Acquiror Sub. Notwithstanding anything in this Agreement to the contrary, any matter disclosed in any part of the disclosure schedules shall be deemed to be disclosed in all parts of the disclosure schedules where such matter is required to be disclosed, regardless of whether such matter is specifically cross-referenced. The disclosure of any matter in the disclosure schedules shall not necessarily be deemed an indication that such matter is material or is required to be disclosed.

3.01 Organization and Qualification; Subsidiaries. Except as set forth on Schedule 3.01(a), each of the Company and its Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties makes such qualification necessary, except such jurisdictions if

any, where the failure to be so qualified would not have a Company Material Adverse Effect. A true and complete list of all the Company's directly or indirectly owned Subsidiaries together with the jurisdiction of incorporation or organization of each Subsidiary and the percentage of each Subsidiary's outstanding capital stock or other equity interest owned by the Company or another Subsidiary of the Company, is set forth on Schedule 3.01(b).

3.02 Articles of Incorporation; By-Laws. The Company has furnished to Acquiror complete and correct copies of the Articles of Incorporation and the By-Laws, as amended or restated, of the Company and each of its Subsidiaries. Neither the Company nor any Subsidiary is in violation of any of the provisions of its Articles of Incorporation or By-Laws, as amended or restated.

3.03 Capitalization.

(a) As of the date of this Agreement, the authorized capital stock of the Company consists of 10,000,000 shares of Company Common Stock and 2,000,000 shares of Preferred Stock, of which 4,532,883 shares of Common Stock were issued and outstanding, 725,000 shares of Common Stock were reserved for issuance pursuant to the Company Stock Plans and 541,000 Company Stock Options are outstanding (excluding Company Stock Options granted in connection with this Agreement).

(b) Information as of the date of this Agreement relating to the amounts of the authorized and issued and outstanding capital stock of each Subsidiary is listed on Schedule 3.03(b).

(c) Except as described in this section 3.03, no shares of Company Common Stock are reserved for any other purpose. Since December 31, 1993, no shares of Company Common Stock have been issued by the Company, except pursuant to the exercise of outstanding Company Stock Options in accordance with their terms. Except as contemplated by this Agreement or as described on Schedule 3.03(c), there have been no changes in the terms of any outstanding Company Stock Options or the grant of any additional Company Stock Options since December 31, 1993. All outstanding shares of Company Common Stock have been duly authorized and are validly issued, fully paid and nonassessable (except as provided in section 180.0622(2)(b) of the Wisconsin Law, as interpreted) and are not subject to preemptive rights under the Wisconsin Law, the Company's Articles of Incorporation or By-Laws or any agreement to which the Company is a party. Each of the outstanding shares of capital stock of, or other equity interests in, each of the Company's Subsidiaries has been duly authorized and is validly issued, fully paid and nonassessable (except as provided in section 180.0622(2)(b) of the Wisconsin Law, as interpreted), and such shares or other equity interests are owned by the Company free and clear of all security interests, liens, claims, pledges, agreements, limitations on the Company's voting rights, charges or other encumbrances of any nature whatsoever, subject to federal and state securities laws. Except as contemplated by this Agreement or described in section 3.03(a) there are no options, warrants or other rights, agreements, arrangements or commitments to which the Company or any of its Subsidiaries is a party of any character relating to the issued or unissued capital stock of, or other equity interests in, the Company or any of the Subsidiaries or obligating the Company or any of the Subsidiaries to grant, issue, sell or register for sale any shares of the capital stock of, or other equity interests in, the Company or any of the Subsidiaries. Except as set forth on Schedule 3.03(c), as of the date of this Agreement, there are no obligations, contingent or otherwise, of the Company or any of its Subsidiaries to (x) repurchase, redeem or otherwise acquire any shares of Company Common Stock, or the capital stock of, or other equity interests in, any Subsidiary of the Company, or (y) provide funds to, or make any investment in (in the form of a loan, capital contribution or otherwise), or provide any guarantee with respect to the obligations of, any Subsidiary of the Company, except for the provision of funds to, making an investment in (in the form of a loan, capital contribution or otherwise) or provision of any guarantees of obligations of Subsidiaries in the ordinary course of business.

3.04 Authority; Vote Required.

(a) The Company has the requisite corporate power

and authority to execute and deliver this Agreement, to perform its obligations under this Agreement and to consummate the transactions contemplated by this Agreement, subject to required shareholder approval. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action, including such corporate action as may be required by section 180.1140 et seq. of the Wisconsin Law, and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated by this Agreement (other than with respect to the approval of this Agreement by the holders of Company Common Stock in accordance with the Wisconsin Law and the Company's Articles of Incorporation and By-Laws). This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws relating to or affecting the rights and remedies of creditors generally and by general principles of equity including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance, injunctive relief or other equitable remedies, regardless of whether enforceability is considered in a proceeding in equity or at law.

(b) The affirmative vote of the holders of at least a majority of the outstanding shares of Company Common Stock is the only vote of the holders of any class or series of capital stock of the Company necessary to approve the Merger.

3.05 No Conflict; Required Filings and Consents.

(a) The execution and delivery of this Agreement by the Company do not, and the performance of this Agreement by the Company will not: (i) violate the Articles of Incorporation or By-Laws of the Company or any of its Subsidiaries; (ii) subject to (x) obtaining the requisite approval of this Agreement by the holders of at least a majority of the outstanding shares of Company Common Stock in accordance with the Wisconsin Law and the Company's Articles of Incorporation and By-Laws, (y) obtaining the consents, approvals, authorizations and permits of, and making filings with or notifications to, any governmental or regulatory authority, domestic or foreign ("Governmental Entities"), pursuant to the applicable requirements, if any, of the Exchange Act, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "HSR Act"), the federal Health Maintenance Organization Act of 1973 and the rules and regulations thereunder (the "Federal HMO Act"), the applicable provisions of Wisconsin law and the rules and regulations thereunder relating to the regulation of domestic insurers, third-party benefits administrators and insurance holding companies in the State of Wisconsin (collectively, the "Wisconsin Insurance Laws"), the requirements of the National Association of Securities Dealers, Inc. ("NASD") or the NASDAQ National Market System, and the filing and recordation of appropriate merger documents as required by the Wisconsin Law, and (z) giving the notices and obtaining the consents, approvals, authorizations or permits described on Schedule 3.05(a), violate any laws applicable to the Company or any of its Subsidiaries or by which any of their respective properties is bound, other than a potential violation under any federal or state antitrust or similar laws, rules or regulations; or (iii), except as set forth on Schedule 3.05(a) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets of the Company or any of its Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or any of their respective properties is bound except for such beaches or defaults described in clause (iii) as would not have a Company Material Adverse Effect.

(b) The execution and delivery of this Agreement by the Company do not, and the performance of this Agreement by the Company shall not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entities, except for applicable requirements, if any, of (i) the Exchange Act, the HSR Act, the

Federal HMO Act, the Wisconsin Insurance laws and the requirements of the NASD and the NASDAQ National Market System, (ii) the consents, approvals, authorizations or permits described on Schedule 3.05(a) and (iii) the filing and recordation of appropriate merger documents as required by the Wisconsin Law, except for any consent, approvals, authorizations, permits, filings or notifications that, if not obtained, would not have a Company Material Averse Effect.

3.06 Permits; Compliance. Except as set forth on Schedule 3.06, each of the Company and its Subsidiaries is in possession of all franchises, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary for the Company or any of its Subsidiaries to own, lease and operate its properties or to carry on its business as it is now being conducted (the "Company Permits''), except for any Company Permits the absence of which would not have a Company Material Adverse Effect. To the knowledge of the Company, no suspension, revocation or cancellation of any of the Company Permits is pending or threatened. Neither the Company nor any of its Subsidiaries is operating in default under or violation of (i) any law applicable to the Company or any of its Subsidiaries or by which any of their respective properties is bound or (ii) any of the Company Permits, except for any such defaults or violations which would not have a Company Material Adverse Effect.

3.07 Reports; Financial Statements.

(a) Since December 31, 1993, (x) the Company has filed all forms, reports, statements and other documents required to be filed with (i) the Securities and Exchange Commission (the "SEC") including, without limitation, (A) all Annual Reports on Form 10-K, (B) all Quarterly Reports on Form 10-Q, (C) all proxy statements relating to meetings of shareholders (whether annual or special), (D) all required Current Reports on Form 8-K, (E) all other reports or registration statements and (F) all amendments and supplements to all such reports and registration statements, which amendments and supplements have been, to the knowledge of the Company, required to be filed (collectively, as amended or supplemented, the "Company SEC Reports"), and (ii) any applicable state securities authorities; and (y) the Company and each of its Subsidiaries have filed all forms, reports, statements and other documents required to be filed with any other applicable federal or state regulatory authorities including, without limitation, state insurance and health regulatory authorities, except as set forth on Schedule 3.07(a) or where the failure to file such forms, reports or statements would not have a Company Material Adverse Effect (all such forms, reports, statements and other documents in clauses (x) and (y) of this section 3.07(a) being collectively referred to as the "Company Reports"). Such Company SEC Reports and Company Reports do not contain any untrue statement of a material fact or omit any material fact required to be stated therein or necessary to make the statements therein not misleading.

(b) Each of the consolidated financial statements (including, in each case, any related notes to such statements) contained in the Company SEC Reports (i) have been prepared in all material respects in accordance with the published rules and regulations of the SEC and generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved (except (x) to the extent required by changes in GAAP and (y) as may be indicated in the notes thereto) and (ii) fairly represent the consolidated financial position of the Company and its Subsidiaries as of the respective dates thereof and the consolidated results of operations and cash flows for the periods indicated (subject to normal year-end adjustments in the case of any unaudited interim financial statements).

(c) Except as and to the extent reflected on, or reserved against in, the consolidated balance sheet of the Company and its Subsidiaries at June 30, 1994, including all notes thereto (the "Company Balance Sheet"), or as set forth on Schedule 3.07(c), neither the Company nor any of its Subsidiaries has any liabilities or obligations (whether accrued, absolute, contingent or otherwise) that would be required to be reflected on, or reserved against in, a balance sheet of the Company or in the notes thereto, prepared in accordance with the published rules and regulations of the SEC and GAAP, except for liabilities or obligations incurred in the ordinary course of business since June 30, 1994 that, individually or in the aggregate, would not have a Company Material Adverse Effect.

3.08 Absence of Certain Changes or Events. Except as disclosed in the Company SEC Reports (or the notes thereto) or as contemplated by this Agreement, since December 31, 1993:

(a) each of the Company and its Subsidiaries has conducted its business in the ordinary course and consistent with the Company's past practice;

(b) there has not been any Company Material Adverse Effect;

(c) except as set forth on Schedule 3.08, neither the Company nor any Subsidiary has made any material increase in compensation to officers or key employees or any material increase in any or created any new bonus, insurance, pension or other employee benefit plan, payment or arrangement (including, but not limited to, the granting of stock options) other than in the ordinary course of business and consistent with the Company's past practice;

(d) neither the Company nor any Subsidiary has made any loans or advances to any officer, director, shareholder or Affiliate of the Company or of any Subsidiary (except for travel and business expenses payments);

(e) there has not been any change in the accounting methods or practices followed by the Company or any Subsidiary, except as required by GAAP; and

(f) neither the Company nor any Subsidiary has entered into any commitment or other agreement to do any of the foregoing.

3.09 Absence of Litigation.

(a) Schedule 3.09(a) lists all claims, actions, suits, litigations, or arbitrations or, to the knowledge of the Company, investigations or proceedings affecting the Company or any of its Subsidiaries, at law or in equity, which are pending or, to the knowledge of the Company, threatened, and which has had or would reasonably be expected to have a Company Material Adverse Effect. There is no action pending seeking to enjoin or restrain the Merger.

(b) Except as set forth on Schedule 3.09(b), neither the Company nor any of its Subsidiaries is subject to any continuing order of, consent decree, settlement agreement or other similar written agreement with or, to the knowledge of the Company, continuing investigation by, any Governmental Entity.

3.10 Contracts; No Default.

(a) Schedule 3.10(a) sets forth as of the date of this Agreement a list of each contract or agreement of the Company or its Subsidiaries:

(i) concerning a partnership or joint venture with another Person; or

(ii) which is material to the Company and its Subsidiaries.

(b) Schedule 3.10(b) lists each contract or agreement to which the Company or any of its Subsidiaries is a party materially limiting the right of the Company or any of its Subsidiaries prior to the Effective Time, or Acquiror or any of its Subsidiaries at or after the Effective Time, to engage in, or to compete with any Person in, any business including each contract or agreement containing exclusivity provisions restricting the geographical area in which, or the method by which, any business may be conducted by the Company or any of its Subsidiaries prior to the Effective Time, or by the Acquiror or any of its Subsidiaries after the Effective Time. For the purpose of this Agreement "Company Contract" means the contracts and agreements listed on Schedules 3.10(a) and 3.10(b). Correct and complete copies of all written Company Contracts have been made available to Acquiror.

(c) Each Company Contract is in full force and effect, each is a valid and binding contract or agreement enforceable against the Company or the applicable Subsidiary in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws relating to or affecting the rights and remedies of creditors generally and by general principles of equity including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance, injunctive relief or other equitable remedies, regardless of whether enforceability is considered in a proceeding in equity or at law, and there is no default by the Company in the performance of any obligation to be performed or paid under any such contract or agreement, except for any default that would not have a Company Material Adverse Effect.

3.11 Employee Benefit Plans; Labor Matters.

(a) Schedule 3.11(a) lists or describes any pension, retirement, savings, disability, medical, dental, health, life (including any individual life insurance policy as to which the Company is the owner, beneficiary or both), death benefit, group insurance, profit sharing, deferred compensation, stock option, bonus incentive, vacation pay, severance pay, "cafeteria" or "flexible benefit" plan under section 125 of the Internal Revenue Code of 1986 as amended (the "Code"), or other employee benefit plan, trust, arrangement, contract, agreement, policy or commitment, under which employees of the Company or its Subsidiaries are entitled to participate by reason of their employment with the Company or its Subsidiaries, (i) to which the Company or a Subsidiary is a party or a sponsor or a fiduciary thereof or (ii) with respect to which the Company or a Subsidiary has made payments, contributions or commitments, or has any liability (collectively, the "Employee Benefit Plans").

(b) The Employee Benefit Plans have been operated and administered by the Company in compliance in all material respects with all applicable laws relating to employment or labor matters, including without limitation, the Employee Retirement Income Security Act of 1974, as amended (''ERISA") and the Code.

(c) Each Employee Benefit Plan that is intended to be tax qualified under section 401(a) of the Code has received, or the Company has applied for or will in a timely manner apply for, a favorable determination letter from the Internal Revenue Service (the "IRS") stating that the Plan meets the requirements of the Code and that any trust or trusts associated with the plan are tax exempt under section 501(a) of the Code.

(d) The Company does not maintain any defined benefit plan covering employees of the Company or its Subsidiaries within the meaning of section 3(35) of ERISA.

(e) Neither the Company nor any of its Subsidiaries is a party to any collective bargaining or other labor union contract.

(f) Schedule 3.11(f) sets forth a list of all written employment agreements, employment contracts or understandings relating to employment (other than relating to "at-will" employment) to which the Company or any of its Subsidiaries is a party.

3.12 Taxes. The Company has filed or caused to be filed with the appropriate Governmental Entities, all federal, state, municipal, and local income, franchise, excise, real and personal property, and other tax returns and reports that are required to be filed and the Company is not delinquent in the payment of any material taxes shown on such returns or response or on any material assessments for any such taxes received by it and has otherwise complied in all material respects with all legal requirements applicable to the Company with respect to all income, sales, use, real or personal property, excise or other taxes. The Company Balance Sheet includes adequate reserves for the payment of all accrued but unpaid federal, state, municipal and local taxes of the Company, including, without limitation, interest and penalties, whether or not disputed, for the year ended December 31, 1993 and for all fiscal years prior thereto. Except as set forth on Schedule 3.12, the Company has not executed or filed with the Internal Revenue Service any agreement extending the period for assessment and collection of any federal tax. The

Company is not a party to any pending action or proceeding, nor, to the knowledge of the Company, has any action or proceeding been threatened, by any Governmental Entity for assessment or collection of taxes, and no claim for assessment or collection of taxes has been asserted against the Company.

3.13 Intellectual Property Rights. To the knowledge of the Company, the Company and each of the Subsidiaries owns or possesses the right to use (in the manner and the geographic areas in which they are currently used) all patents, patents pending, trademarks, service marks, trade names, service names, slogans, registered copyrights, trade secrets and other intellectual property rights it currently uses, without any conflict or alleged conflict with the rights of others, except where any such conflict would not have a Company Material Adverse Effect.

3.14 Certain Business Practices and Regulations. Neither the Company nor any of its Subsidiaries, nor any of its or their respective executive officers or directors has, to the knowledge of the Company, (i) made or agreed to make any contribution, payment or gift to any customer, supplier, governmental official, employee or agent where either the contribution, payment or gift or the purpose thereof was illegal under any law, (ii) established or maintained any material unrecorded fund or asset of the Company for any improper purpose or made any material false entries on its books and records for any reason, (iii) made or agreed to make any contribution, or reimbursed any political gift or contribution made by any other Person, to any candidate for federal, state or local public office in violation of any law, or (iv) engaged in any activity constituting fraud or abuse under the laws relating to health care, insurance or the regulation of professional corporations, where such action would have a Company Material Adverse Effect.

3.15 Insurance. All policies and binders of insurance for professional liability, directors and officers, property and casualty, fire, liability, worker's compensation and other customary matters held by or on behalf of the Company or its Subsidiaries (''Insurance Policies") have been made available to Acquiror. The Insurance Policies are in full force and effect. To the knowledge of the Company, the Company or its Subsidiaries have not failed to give any notice of any claim under any Insurance Policy in due and timely fashion, nor to the knowledge of the Company, has any coverage for claims been denied, which failure or denial has had or would have a Company Material Adverse Effect. The business policy of the Company and its Subsidiaries is to require that each individual or entity rendering professional health care services as a contractor to the Company or its Subsidiaries maintain professional liability insurance with coverage in at least such amounts as are customary in the industry.

3.16 Brokers. No broker, finder or investment banker other than Salomon Brothers Inc. is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon any arrangements made by or on behalf of the Company.

3.17 Title to Properties.

(a) Neither the Company nor any Subsidiary owns any real property. Leases for all of the material real property leased by the Company or any Subsidiary are listed on Schedule 3.17 (the "Real Property") .

(b) The Company owns the tangible properties and tangible assets reflected in the Company SEC Reports and, to the knowledge of the Company, the leases for the Real Property described on Schedule 3.17 are in full force and effect and the Company holds a valid and existing leasehold interest under each of the leases. The Company has delivered to Acquiror complete and accurate copies of each of the leases described on Schedule 3.17, and none of such leases has been modified in any respect, except to the extent that such modifications are disclosed by the copies delivered to Acquiror and except for such modifications as would not have a Company Material Adverse Effect. Neither the Company nor the applicable Subsidiary is in default, and to the knowledge of the Company no circumstances exist, including the effect of the Merger and this Agreement, which, if unremedied, would, either with or without notice or the passage of time or both, result in the Company's or the applicable Subsidiary's default under any of such leases, in each case,

where such default would have a Company Material Adverse Effect.

(c) Neither the Company nor any Subsidiary is in violation of any applicable material zoning ordinance or other law, regulation or requirement relating to the operation of any properties used in the operation of its business, which violation has had or would have a Company Material Adverse Effect, and neither the Company nor any Subsidiary has received any notice of any such violation, or the existence of any condemnation proceeding with respect to any of the Real Property.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES OF ACQUIROR AND ACQUIROR SUB

The term "Acquiror Material Adverse Effect" as used in this Agreement shall mean any change or effect that, individually or when taken together with all such other changes or effects, is materially adverse to the condition (financial or otherwise), results of operations business, properties, assets or liabilities of Acquiror and its Subsidiaries, taken as a whole.

Acquiror and Acquiror Sub jointly and severally represent and warrant to the Company that:

4.01 Organization and Qualification; Subsidiaries. Each of Acquiror and Acquiror Sub is a corporation, duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted.

4.02 Authority. Each of Acquiror and Acquiror Sub has the requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Acquiror and Acquiror Sub, and the consummation by Acquiror and Acquiror Sub of the transactions contemplated hereby, have been duly authorized by all necessary corporate action and no other corporate proceedings on the part of Acquiror or Acquiror Sub are necessary to authorize this Agreement or to consummate the transactions contemplated by this Agreement. This Agreement has been duly executed and delivered by Acquiror and Acquiror Sub and constitutes a legal, valid and binding obligation of Acquiror and Acquiror Sub enforceable against Acquiror and Acquiror Sub in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws relating to or affecting the rights and remedies of creditors generally and by general principles of equity including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance, injunctive relief or other equitable remedies, regardless of whether enforceability is considered in a proceeding in equity or at law.

4.03 No Conflict; Required Filings and Consents.

(a) The execution and delivery of this Agreement by Acquiror and Acquiror Sub do not, and the performance of this Agreement by Acquiror and Acquiror will not, (i) violate the Articles of Incorporation or By-Laws or equivalent organizational documents of Acquiror or Acquiror Sub, (ii) subject to obtaining the consents, approvals, authorizations and permits of, and making filings with or notifications to, any Governmental Entities pursuant to the applicable requirements, if any, of any stock exchange or quotation service on which Acquiror's securities are listed or quoted, the HSR Act, the Federal HMO Act and the Wisconsin Insurance Laws, and the filing and recordation of appropriate merger documents as required by the Wisconsin Law, conflict with or violate any laws applicable to Acquiror or Acquiror Sub or by which any of their respective properties is bound or affected, except such as would not have an Acquiror Material Adverse Effect.

(b) The execution and delivery of this Agreement by Acquiror and Acquiror Sub do not, and the performance of this Agreement by Acquiror and Acquiror Sub shall not, require any consent, approval, authorization or permit of, or filing with or notification to, any

Governmental Entities, except as described in section 4.03(a) above.

4.04 Ownership of Acquiror Sub; No Prior Activities.

(a) Acquiror Sub was formed for the purpose of engaging in the transactions contemplated by this Agreement.

(b) As of the Effective Time, all of the outstanding capital stock of Acquiror Sub will be owned directly by Acquiror. As of the Effective Time, there will be no options, warrants or other rights (including registration rights), agreements, arrangements or commitments to which Acquiror Sub is a party of any character relating to the issued or unissued capital stock of, or other equity interests in, Acquiror Sub or obligating Acquiror Sub to grant, issue or sell any shares of the capital stock of, or other equity interests in, Acquiror Sub, by sale, lease, license or otherwise. There are no obligations, contingent or otherwise, of Acquiror Sub to repurchase, redeem or otherwise acquire any shares of the capital stock of Acquiror Sub.

(c) As of the date hereof and the Effective Time, except for obligations or liabilities incurred in connection with its incorporation or organization and the transactions contemplated by this Agreement, Acquiror Sub has not and will not have incurred, directly or indirectly, through any Subsidiary or Affiliate, any obligations or liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreement or arrangements with any Person.

4.05 Brokers. No broker, finder or investment banker other than Morgan Stanley & Company is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Acquiror.

4.06 Financing. Acquiror has the ability to and intends to finance the aggregate of the amounts payable pursuant to Article II with cash on hand and utilization of existing credit facilities. Acquiror will use its best efforts to ensure the continued availability of such financing and pay such amounts in accordance with the terms of this Agreement and will not take any action between the date hereof and the Effective Time which would impair its ability to obtain such financing.

ARTICLE V

COVENANTS

5.01 Affirmative Covenants of the Company. The Company covenants and agrees that prior to the Effective Time, unless otherwise contemplated by this Agreement or consented to in writing by Acquiror, the Company will and will cause each of its Subsidiaries to:

(a) operate its business in the ordinary course of business and consistent with its past practice;

(b) use reasonable efforts to preserve intact its business organization and assets, maintain its rights and franchises, retain the services of its respective officers and key employees and maintain the relationships with its respective key customers and suppliers;

(c) use reasonable efforts to keep in full force and effect liability insurance and bonds comparable in amount and scope of coverage to that currently maintained; and

(d) subject to the provisions of the Acquiror Confidentiality Agreement (as hereinafter defined), confer with Acquiror at its reasonable request to report operational matters of a material nature and to report the general status of the ongoing operations of the business of the Company and its Subsidiaries.

(e) Subject to the provisions of the Acquiror Confidentiality Agreement, from the date hereof until the Closing Date, the Company (i) will give, and will cause each of its Subsidiaries to give, Acquiror, its counsel, financial advisors, auditors and other authorized representatives reasonable access to the offices, properties, books and records of the Company and its Subsidiaries, (ii) will furnish, and will cause each Subsidiary to furnish, to Acquiror, its counsel, financial

advisors, auditors and other authorized representatives such financial and operating data and other information relating to the Company and the Subsidiaries as such persons may reasonably request, and (iii) will instruct the employees, counsel and financial advisors of the Company and the Subsidiaries to cooperate in all reasonable respects with Acquiror in its investigation of the Company and the Subsidiaries; provided that no investigation pursuant to this Subsection shall affect any representation or warranty given by the Company hereunder. Notwithstanding the foregoing, Acquiror shall not have access to information, analyses and materials prepared for the Company by Salomon Brothers Inc, personnel records, medical histories or other information which in the Company's good faith opinion is sensitive or the disclosure of which could subject the Company to risk of liability.

5.02 Negative Covenants of the Company. Except as contemplated by this Agreement or consented to in writing by Acquiror, from the date of this Agreement until the Effective Time, the Company shall not do, and shall not permit any of its Subsidiaries to do, any of the following:

(a) except as set forth on Schedule 5.02(a): (i) increase the compensation payable to any director, officer or employee of the Company or any of its Subsidiaries, except for increases in salary or wages payable or to become payable in the ordinary course of business and consistent with the policies currently in effect; (ii) grant any severance or termination pay (other than pursuant to the normal severance policy of the Company or its Subsidiaries currently in effect) to, or enter into any severance agreement with, any director or officer; (iii) subject to clause (i), enter into or amend any employment agreement with any director or officer that would extend beyond the Effective Time except on an at-will basis; or (iv) establish, adopt, enter into or amend any Employee Benefit Plan, except as may be required to comply with applicable law;

(b) declare or pay any dividend on, or make any other distribution in respect of, outstanding shares of capital stock;

(c) (i) redeem, purchase or otherwise acquire any shares of its or any of its Subsidiaries' capital stock or any securities or obligations convertible into or exchangeable for any shares of its or its Subsidiaries' capital stock, or any options, warrants or conversion or other rights to acquire any shares of its or its Subsidiaries capital stock; (ii) effect any reorganization or recapitalization; or (iii) split, combine or reclassify any of its or its Subsidiaries' capital stock (except for the issuance of shares upon the exercise of options or warrants in accordance with their terms);

(d) issue, deliver, award, grant or sell, or authorize the issuance, delivery, award, grant or sale (including the grant of any security interests, liens, claims, pledges, limitations on voting rights, charges or other encumbrances) of, any shares of any class of its or its Subsidiaries' capital stock, any securities convertible into or exercisable or exchangeable for any such shares, or any rights, warrants or options to acquire any such shares (except for the issuance of shares upon the exercise of options or warrants in accordance with their terms), or amend or otherwise modify the terms of any such rights, warrants or options the effect of which shall be to make such terms more favorable to the holders thereof, except as contemplated by this Agreement;

(e) to the extent material, acquire or agree to acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets of any other Person (other than the purchase of assets from suppliers or vendors in the ordinary course of business and consistent with the Company's past practice);

(f) sell, lease, exchange, mortgage, pledge, transfer or otherwise dispose of, or agree to sell, lease, exchange, mortgage, pledge, transfer or otherwise dispose of, any material amount of any of its or its Subsidiaries' assets, except for dispositions in the ordinary course of business and consistent with the Company's past practice;

(g) adopt any amendments to its Articles of Incorporation or By-Laws;

(h) except as set forth in Schedule 5.02(h); (A) change any of its methods of accounting in effect at December 31, 1993 or (B) make or rescind any express or deemed election relating to taxes, settle or compromise any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes, or change any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of the federal income tax returns for the taxable year ending December 31, 1993, except in either case as may be required by law, the IRS, or GAAP or in the ordinary course of business consistent with past practice;

(i) incur any obligation for borrowed money or purchase money indebtedness, whether or not evidenced by a note, bond, debenture or similar instrument, except as approved by Acquiror in advance; or

(j) agree in writing or otherwise to do any of the foregoing.

5.03 Confidentiality Agreement. The parties will, and will cause their respective officers, employees, accountants, consultants, legal counsel and other representatives to, comply with all of their respective obligations under the Confidentiality Agreement entered into by the Company and Acquiror on September 7, 1994 concerning the Company's confidential information (the "Acquiror Confidentiality Agreement").

5.04 Acquisition Proposals. Upon execution of this Agreement, the Company and its Subsidiaries and their respective officers, directors, employees, agents and advisors will immediately cease any existing discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal (as hereinafter defined). The Company may, directly or indirectly, furnish information and access, in each case only in response to requests that were not solicited by the Company (or any officer, director, employee, agent or advisor on its behalf) after the date of this Agreement, to any corporation, partnership, person or other entity or group (each, a "Potential Acquiror") pursuant to confidentiality agreements, and may participate in discussions and negotiate with a Potential Acquiror concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any Subsidiary or division of the Company, if such Potential Acquiror has submitted a written proposal to the Board of Directors relating to any such transaction, and the Board of Directors determines in good faith after consultation with independent legal counsel that the failure to provide such information or access or to engage in such discussions or negotiations would be inconsistent with their fiduciary duties to the Company's shareholders under applicable law. The Company shall notify Acquiror immediately if any such request or proposal, or any inquiry or contact with any Person with respect thereto, is made and shall keep Acquiror apprised of all developments that could reasonably be expected to culminate in the Board withdrawing, modifying or amending its recommendation of the Merger and the other transactions contemplated by this Agreement. The Company has entered into confidentiality agreements with other third parties substantially in the form of the Acquiror Confidentiality Agreement. The Company agrees not to release any third party from, or waive any provision of, any confidentiality or standstill agreement to which the Company is a party unless, in the opinion of the Board of Directors after consultation with independent legal counsel, the failure to provide such release or waiver would be inconsistent with its fiduciary duties to the Company's shareholders under applicable law. For purposes of this section 5.04, the term "Acquisition Proposal" means any proposal or offer for a merger, asset acquisition or other business combination (other than the Merger contemplated by this Agreement) involving the Company or any Subsidiary and any Potential Acquiror, or any proposal or offer to acquire a significant equity interest in, or a significant portion of the assets of, the Company or any Subsidiary by a Potential Acquiror.

## ARTICLE VI

## ADDITIONAL AGREEMENTS

6.01 Proxy Statement.

(a) As promptly as practicable after the execution of this Agreement, the Company shall prepare and file with the SEC a proxy statement and a form of proxy to be sent to the shareholders of the Company in connection with the meeting of the Company's shareholders to consider the Merger (the "Shareholders' Meeting") (such proxy statement, together with any amendments thereof or supplements thereto, in each case in the form or forms mailed to the Company's shareholders, being the "Proxy Statement"). The Proxy Statement shall include the recommendation of the Company's Board of Directors in favor of the Merger and approval of this Agreement, unless outside legal counsel to the Company advise the Company's Board of Directors that the directors' fiduciary duties under applicable law require them not to do so.

(b) The information included in the Proxy Statement shall not, at the date the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to shareholders or at the time of the Shareholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements, therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Shareholders' Meeting, any event or circumstance relating to the Company or any of its Subsidiaries, or its or their respective officers or directors, is discovered by the Company which should be set forth in a supplement to the Proxy Statement, the Company shall promptly inform Acquiror. All documents that the Company is responsible for filing with the SEC in connection with the transactions contemplated herein will comply as to form and substance in all material respects with the applicable requirements of the Exchange Act.

(c) Acquiror and Acquiror Sub each consents to the use of its name and, on behalf of its Subsidiaries and Affiliates, the names of such Subsidiaries and Affiliates and to the inclusion of business information relating to such party and its Subsidiaries and Affiliates (in each case, to the extent required by applicable securities laws) in the Proxy Statement. The Company, Acquiror and Acquiror Sub each hereby agrees to (i) use its reasonable efforts to obtain the written consent of any Person retained by it which may be required to be named (as an expert or otherwise) in the Proxy Statement; provided, that such party shall not be required to make any material payment to such Person in connection with such party's efforts to obtain any such consent, and (ii) cooperate, and agrees to use its reasonable efforts to cause its Subsidiaries and Affiliates to cooperate, with any legal counsel, investment banker, accountant or other agent or representative retained by any of the parties in connection with the preparation of any and all information required as determined after consultation with each party's counsel, by applicable securities laws to be disclosed in the Proxy Statement.

6.02 Meeting of Shareholders. The Company shall take all action necessary in accordance with the Wisconsin Law and its Articles of Incorporation and By-Laws to convene the Shareholders' Meeting, and the Company shall consult with Acquiror in connection therewith. The Company shall use reasonable efforts to solicit from the shareholders of the Company proxies in favor of the Merger and shall take all other actions necessary or advisable to secure the vote or consent of shareholders required by the Wisconsin Law to approve this Agreement, including the retention of proxy solicitation agents if requested by Acquiror, unless otherwise required by the applicable fiduciary duties of directors or officers of the Company.

6.03 Appropriate Action; Consents; Filings.

(a) Subject to the terms and conditions herein provided, the Company, Acquiror and Acquiror Sub shall use all reasonable efforts to (i) take, or cause to be taken, all appropriate action, and do or cause to be done, all things necessary, proper or advisable under applicable law or otherwise to consummate and make effective the transactions contemplated by this Agreement as promptly as practicable, (ii) obtain from any Governmental Entities any consents, licenses or orders required to be obtained by Acquiror or the Company or any of their respective Subsidiaries in connection with the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement, including, without limitation, the Merger, and (iii) make all necessary notifications and filings and thereafter make any other required submissions with respect to this Agreement and

the Merger required under (A) the Exchange Act and any other applicable federal or state securities laws, (B) the HSR Act, (C) the Federal HMO Act and the Wisconsin Insurance Laws and (D) any other applicable law; provided that Acquiror and the Company shall cooperate with each other in connection with the making of all such filings. The Company and Acquiror shall furnish to each other all information required for any application or other filing to be made pursuant to the rules and regulations of any applicable law (including all information required to be included in the Proxy Statement) in connection with the transactions contemplated by this Agreement.

(b) (i) The Company and Acquiror shall give (or cause their respective Subsidiaries to give) any notices to third parties, and use, and cause their respective Subsidiaries to use, all reasonable efforts to obtain any third-party consents, (A) necessary to consummate the transactions contemplated in this Agreement, (B) disclosed or required to be disclosed in the disclosure schedules to this Agreement, or (c) required to prevent a Company Material Adverse Effect from occurring prior to the Effective Time.

(ii) In the event that any party shall fail to obtain any third-party consent described in subsection (b)(i) above, such party shall use reasonable efforts, and shall take any such actions reasonably requested by the Company and Acquiror to minimize any adverse effect upon the Company, its Subsidiaries and its businesses resulting, or which could reasonably be expected to result after the Effective Time, from the failure to obtain such consent.

(c) From the date of this Agreement until the Effective Time, the Company shall promptly notify Acquiror in writing of any pending or, to the knowledge of the Company, threatened action, proceeding or investigation by any Governmental Entity or any other Person (i) challenging or seeking material damages in connection with the Merger, (ii) alleging that the consent of such Governmental Entity or Person may be required in connection with the Merger or this Agreement or (iii) seeking to restrain or prohibit the consummation of the Merger or otherwise limit the right of Acquiror or, to the knowledge of the Company, its Subsidiaries, to own or operate all or any portion of the businesses or assets of the Company or its Subsidiaries.

(d) From the date of this Agreement until the Effective Time, Acquiror shall promptly notify the Company in writing of any pending or, to the knowledge of Acquiror, threatened action, proceeding or investigation by any Governmental Entity or any other Person (i) challenging or seeking material damages in connection with the Merger or (ii) seeking to restrain or prohibit the consummation of the Merger or otherwise limit the right of Acquiror or its Subsidiaries to own or operate all or any portion of the business or assets of the Company or its Subsidiaries.

6.04 Update Disclosure; Breaches. From and after the date of this Agreement until the Effective Time, each party shall promptly notify the other parties hereto by written update to its disclosure schedules ("Update Schedule") of (i) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would be reasonably likely to cause any condition to the obligations of any party to effect the Merger and the other transactions contemplated by this Agreement not to be satisfied, (ii) the failure of the Company or Acquiror, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it pursuant to this Agreement which would be reasonably likely to result in any condition to the obligations of any party to effect the Merger and the other transactions contemplated by this Agreement not to be satisfied, or (iii) of any changes to the information contained in its disclosure schedule (including any change to any representations or warranties herein as to which no schedule has been created as of the date hereof but as to which a schedule would have been required hereunder to have been created on or before the date hereof if such change had existed on the date hereof); provided, however, that the delivery of any Update Schedule pursuant to this section 6.04 shall not cure any breach of any representation or warranty requiring disclosure of such matter prior to the date of this Agreement or otherwise limit or affect the remedies available to the party receiving such notice.

6.05 Public Announcements. The parties to this Agreement shall consult in good faith with each other before issuing any press release

or otherwise making any public statements with respect to the Merger and shall not issue any such press release or make any such public statement without the prior written agreement of the other party, except as may be required by law or the requirements of the New York Stock Exchange or the NASDAQ National Market.

6.06 Indemnification.

(a) From and after the Effective Time, Acquiror shall, and shall cause the Surviving Corporation to, indemnify, defend and hold harmless the present and former officers, directors, employees, agents and representatives of the Company and its Subsidiaries (collectively, the "Indemnified Parties") against all losses, expenses, claims, damages or liabilities arising out of actions or omissions occurring at or prior to the Effective Time (including, without limitation, the transactions contemplated by this Agreement) to the full extent permitted or required under the Wisconsin Law or other applicable state law (and shall also advance reasonable expenses as incurred to the fullest extent permitted under the Wisconsin Law or other applicable state law, provided that the persons to whom expenses are advanced provides an undertaking to repay such advances contemplated by the Wisconsin Law). Acquiror and Acquiror Sub agree that all rights to indemnification, including provisions relating to advances of expenses incurred in defense of any claim, action, suit, proceeding or investigation (a "Claim") existing in favor of the Indemnified Parties as provided in the Company's Articles of Incorporation or By-Laws or other agreement or provisions, as in effect as of the date hereof, with respect to matters occurring through the Effective Time, shall survive the Merger and shall continue in full force and effect.

(b) Without limiting the foregoing, in the event any Claim is brought against any Indemnified Party (whether arising before or after the Effective Time) after the Effective Time (i) the Indemnified Parties may retain counsel satisfactory to them (subject to approval by Acquiror and the Surviving Corporation, which approval will not be unreasonably withheld or delayed), (ii) Acquiror and the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received subject to the ability of Acquiror and the Surviving Corporation to receive such information relative to the legal services provided as is customarily provided and reasonably requested by Acquiror and the Surviving Corporation, and (iii) Acquiror and the Surviving Corporation will use all reasonable efforts to assist in the vigorous defense of any such matter, provided that neither Acquiror nor the Surviving Corporation shall be liable for any settlement of any Claim effected without its written consent, which consent, however, shall not be unreasonably withheld or delayed. Any Indemnified Party wishing to claim indemnification under this section 6.06, upon learning of any such Claim, shall notify Acquiror (but the failure so to notify Acquiror shall not relieve it from any liability which it may have under this section 6.06 except to the extent such failure materially prejudices Acquiror). The Indemnified Parties as a group may retain only one law firm to represent them with respect to each such matter unless there is, as evidenced by the written opinion of counsel reasonably acceptable to Acquiror and the Surviving Corporation, under applicable standards of professional conduct, a conflict on any significant issue between the positions of any two or more Indemnified Parties.

(c) The Surviving Corporation shall use reasonable efforts to obtain extended reporting endorsements on the fiduciary liability, professional liability and directors and officers liability policies currently covering the Company or any of its Subsidiaries or any of the Indemnified Parties, and will submit to the applicable insurer a full and complete list of any potential claims under the policy issued by such insurer. In the event the Surviving Corporation is unable to obtain extended coverage under its existing directors and officers liability insurance policies, Acquiror shall use reasonable efforts to provide similar coverage for the Indemnified Parties under policies then maintained by Acquiror; provided that such similar coverage is available to Acquiror at a cost not substantially higher than the Company's present coverage.

(d) This section 6.06 is intended to benefit the Indemnified Parties and shall be binding on all successors and assigns of Acquiror, Acquiror Sub, the Company and the Surviving Corporation.

6.07 Obligations of Acquiror Sub. Acquiror shall take all action necessary to cause Acquiror Sub to perform its obligations under

this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

6.08 Employee Benefits and Compensation.

(a) After the Effective Time, the employee benefit plans of the Surviving Corporation shall recognize for eligibility, vesting, accrual and all other purposes the credited service of employees of the Company and its Subsidiaries credited as of the Effective Time under the Company's Employee Benefit Plans on a basis that is consistent with the manner in which the Employee Benefit Plans of the Company recognized such employment for similar purposes.

(b) As soon as practicable after the Effective Time, the Surviving Corporation will pay to each participant all amounts required to be paid pursuant to the Company's Long-Term Performance Unit Plan ("PUP"). As soon as practicable after the Effective Time, Acquiror will also cause the Surviving Corporation to make a cash payment to each participant in the Company's 401(k) Plan ("401(k) Plan") who is employed by the Company or one of its Subsidiaries at the Effective Time. Such payment shall equal 2% of each such participant's Compensation (as defined in the 401(k) Plan) from the first day of the calendar year in which the Merger occurs until the Effective Time.

(c) During the two-year period following the Effective Time, any employee of the Surviving Corporation who is (i) involuntarily terminated without "Cause" (as defined on Schedule 6.08(c)); or (ii) who voluntarily terminates employment with the Surviving Corporation after (A) a reduction in such employee's current monthly salary, without giving effect to any options, bonuses, or other incentive compensation to which such employee might otherwise be entitled, or (B) Acquiror or the Surviving Corporation requiring the employee (without his or her consent) to be based anywhere other than within 25 miles of the employee's office location on the date hereof, except for required travel on the Surviving Corporation's business to an extent substantially consistent with the employee's present business travel obligations, will be paid by the Surviving Corporation a severance payment as follows: (1) for Bonus Participants (as defined on Schedule 6.08(c)) an amount equal to one months base salary per full year of total credited service at the Effective Time and any service with Acquiror or its Subsidiaries following the Effective Time, but not less than one months nor more than six months base salary for any such employee, plus a lump sum payment in an amount equal to such employee's base salary for any period of unused accrued vacation time and (2) for all other employees, an amount equal to one months base salary per full year of total credited service at the Effective Time and any service with Acquiror or its Subsidiaries following the Effective Time, but not less than two weeks nor more than three months base salary for any such employee, plus a lump sum payment in an amount equal to such employee's base salary for any period of unused accrued vacation time. Acquiror will provide group health care benefits to former employees receiving severance benefits for the period that severance benefits are received, but not less than three months, on the same basis then being provided to active employees of the Company. Employees terminated for Cause shall not be entitled to such severance pay. The parties agree that the foregoing severance policy (i) is for the benefit only of individuals employed by the Company as of the Effective Time and who are not otherwise entitled to severance benefits pursuant to an existing agreement, (ii) does not obligate Acquiror or the Surviving Corporation or any Subsidiary thereof to take any action or make any payment with respect to time periods commencing after the second anniversary of the Effective Time, and (iii) does not restrict in any manner Acquiror's ability to establish new or different policies with respect to severance for any other employees of Acquiror or the Surviving Corporation and for any period commencing after the second anniversary of the Effective Time.

ARTICLE VII

CLOSING CONDITIONS

7.01 Conditions to Obligations of Each Party Under This Agreement. The respective obligations of each party to effect the Merger and the other transactions contemplated by this Agreement shall be subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived, in whole or in part, to the

extent permitted by applicable law:

(a) Shareholder Approval. This Agreement and the Merger shall have been approved by the requisite vote of the shareholders of the Company.

(b) No Action or Proceeding. There shall not have been instituted and there shall not be pending any action or proceeding by a Governmental Entity, and no such action or proceeding shall have been approved by a Governmental Entity with authority to institute such an action or proceeding, before any court of competent jurisdiction or governmental agency or regulatory or administrative body, and no order or decree shall have been entered in any action or proceeding before such court, agency or body of competent jurisdiction: (i) imposing or seeking to impose limitations on the ability of Acquiror to acquire or hold or to exercise full rights of ownership of any securities of the Company or any of its Subsidiaries; (ii) imposing or seeking to impose limitations on the ability of Acquiror to combine and operate the business and assets of the Company with any of Acquiror's Subsidiaries or other operations; (iii) imposing or seeking to impose other sanctions, damages or liabilities arising out of the Merger on Acquiror, Acquiror Sub, the Company or any of their officers or directors; (iv) requiring or seeking to require divestiture by Acquiror of all or any material portion of the business, assets or property of the Company and its Subsidiaries; or (v) restraining, enjoining or prohibiting or seeking to restrain, enjoin or prohibit the consummation of the Merger, in each case, with respect to clauses (i) through (iv) above, which would or is reasonably likely to result in a Company Material Adverse Effect at or prior to or after the Effective Time or, with respect to clauses (i) through (v) above, which would or is reasonably likely to subject any of their respective officers or directors to any penalty or criminal liability. Notwithstanding the foregoing, prior to invoking the condition set forth in this section 7.01(b), the party seeking to invoke it shall have used its reasonable efforts to have any pending or approved such action or proceeding withdrawn or dismissed or such order or decree vacated.

(c) HSR Act. The applicable waiting period, together with any extensions thereof, under the HSR Act shall have expired or been terminated.

(d) Federal HMO Act and Wisconsin Insurance Laws. The applicable approvals and any applicable waiting periods under the Federal HMO Act and the Wisconsin Insurance Laws shall have been received, waived or terminated and all notices required by such Acts given.

(e) Other Approvals or Notices. All other consents, waivers, approvals and authorizations required to be obtained from, and all filings or notices required to be made with, any Government Entity by Acquiror or the Company or any Subsidiary prior to consummation of the transactions contemplated in this Agreement (other than the filing and recordation of Merger documents in accordance with the Wisconsin Law) shall have been obtained from and made with all required Governmental Entities, except for such consents, waivers, approvals or authorizations which the failure to obtain, or such filings or notices which the failure to make, would not have a Company Material Adverse Effect prior to or after the Effective Time or an Acquiror Material Adverse Effect before or after the Effective Time or be reasonably likely to subject the Company, Acquiror, Acquiror Sub or any of their respective Subsidiaries or any of their respective officers, directors, employees, agents or representatives to substantial penalty or criminal liability.

7.02 Additional Conditions to Obligations of Acquiror and Acquiror Sub. The obligations of Acquiror and Acquiror Sub to effect the Merger and the other transactions contemplated in this Agreement are also subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived, in whole or in part:

(a) Representations and Warranties. Each of the representations and warranties of the Company contained in this Agreement shall have been true and correct in all material respects when made and the information contained therein, as updated by any Update Schedule, taken as a whole, shall not have materially adversely changed;

each of the representations and warranties contained in this Agreement shall be true and correct in all material respects as of the Effective Time. Acquiror shall have received a certificate of the Chief Executive Officer and Chief Financial Officer of the Company to that effect.

(b) Agreements and Covenants. The Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time, except to the extent failure to perform is caused by or is consented to by Acquiror or Acquiror Sub. Any breach by the Company of its obligations under section 5.02(d) shall be deemed to be material noncompliance for purposes of this section 7.02(b). Acquiror shall have received a certificate of the Chief Executive Officer and Chief Financial Officer of the Company to that effect.

(c) Consents Under Agreements. The Company shall have obtained the third-party consents described in subsection 6.03(b)(i), except those for which the failure to obtain such consents and approvals would not have a Company Material Adverse Effect prior to or after the Effective Time or an Acquiror Material Adverse Effect before or after the Effective Time, other than as contemplated by subsection 6.03(b)(ii).

(d) Opinion of Counsel. The Acquiror and the Acquiror Sub shall have received an opinion of Messrs. Reinhart, Boerner, Van Deuren, Norris & Rieselbach, s.c. counsel to the Company, addressed to Acquiror and Acquiror Sub, dated as of the Effective Time, and satisfactory in form and substance to Acquiror, Acquiror Sub and its counsel, to the following effect:

(i) The Company and each Subsidiary is a corporation existing under the laws of the State of Wisconsin and, based solely on a certificate of the Secretary of State of Wisconsin, (a) has filed with the Secretary of State during its most recently completed report year the required annual report; (b) is not the subject of a proceeding under Wisconsin Statutes section 180.1421, to cause its administrative dissolution; (c) no determination has been made by the Secretary of State that grounds exist for such action with respect to the Company or any Subsidiary; (d) no filing has been made with the Secretary of State of a decree of dissolution with respect to the Company or any Subsidiary; and (e) Articles of Dissolution of the Company or any Subsidiary have not been filed with the Secretary of State. Immediately prior to the Effective Time, the Company was the sole registered holder of record of the number of shares of stock or equity interests in its Subsidiaries as is set forth in the Agreement and the Company Disclosure Schedule with respect to section 3.03(d). The Company and its Subsidiaries have the corporate power to carry on their respective businesses as currently being conducted.

(ii) The Agreement and Plan of Merger (the "Agreement") is a legal, valid and binding obligation of the Company (a) except as the Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally; and (b) subject to general principles of equity including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance, injunctive relief or other equitable remedies, regardless of whether considered in a proceeding in equity or at law. Counsel expresses no opinion with respect to section 8.03(e) of the Agreement. The execution, delivery and performance by the Company of the Agreement have been duly authorized by all necessary corporation action, including the requisite approval of the shareholders of the Company. Under the Wisconsin Business Corporation Law and the Company's Articles of Incorporation and By-Laws, the Company's shareholders and Board of Directors properly approved the Merger in accordance with the terms of the Agreement. Upon filing the Articles of Merger as contemplated by the Agreement, the Merger shall be effective under Wisconsin law.

(iii) The execution and delivery of the Agreement and the performance by the Company of its terms do not [a] contravene or conflict with any provision of the Articles of Incorporation or By-Laws of the Company; or [b] violate any order, judgment or decree of any Wisconsin or federal court or governmental instrumentality to which the Company is subject and of which such

counsel has knowledge.

(iv) The authorized capital stock of the Company consists of 12,000,000 shares of capital stock which are comprised of 2,000,000 shares of preferred stock, par value $.01 per share, none of which are issued and outstanding, and 10,000,000 authorized shares of Company Common Stock, par value $.01 per share, of which 4,532,883 shares are issued and outstanding, fully paid and nonassessable except as set forth in Wisconsin Statutes section 180.0622(2)(b), as interpreted. To the knowledge of such counsel, the Company does not have outstanding any stock or securities convertible into or exchangeable for any shares of capital stock or any preemptive rights or other rights to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments, rights or claims of any other character relating to the issuance of, any capital stock or any stock or securities convertible into or exchangeable for any capital stock other than as set forth in [a] the Articles of Incorporation and [b] the Agreement or the Disclosure Schedules. To the knowledge of such counsel, except as set forth in the Articles of Incorporation and as set forth in the Agreement or the Disclosure Schedules, the Company is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of capital stock of the Company.

(v) There are no preemptive rights of stockholders under the Articles of Incorporation of the Company or as a matter of law under the Business Corporation Law of Wisconsin with respect to the Agreement or the Merger.

(vi) To the knowledge of such counsel, there is no action, suit, investigation or proceeding pending or threatened against the Company or any properties or rights of the Company by or before any court, arbitrator or administrative or governmental body which questions the validity of the Agreement or any action which has been or is to be taken by the Company thereunder.

7.03 Additional Conditions to Obligations of the Company. The obligation of the Company to effect the Merger and the other transactions contemplated in this Agreement is also subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived, in whole or in part;

(a) Representations and Warranties. Each of the representations and warranties of Acquiror contained in this Agreement: (A) with respect to those representations and warranties that are qualified by reference to "materiality" or "Acquiror Material Adverse Effect," shall be true and correct in all respects as of the Effective Time, as though made on and as of the Effective Time and (B) with respect to all other representations and warranties, shall be true and correct in all material respects as of the Effective Time, as though made on and as of the Effective Time. The Company shall have received a certificate of the Chief Executive Officer and Chief Financial Officer of Acquiror to that effect.

(b) Agreements and Covenants. Acquiror and Acquiror Sub shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by each of them on or prior to the Effective Time. The Company shall have received a certificate of the Chief Executive Officer and Chief Financial Officer of Acquiror to that effect.

(c) Fairness Opinion. The Company shall have received from Salomon Brothers Inc. an opinion, dated as of the date of the Proxy Statement, to the effect that the consideration which the Company's shareholders will receive pursuant to the Merger is fair to the Company's shareholders from a financial point of view.

(d) Opinion of Counsel. The Company shall have received an opinion of Messrs. Hirn Doheny Reed & Harper, counsel to Acquiror and Acquiror Sub, addressed to the Company, dated as of the Effective Time, and satisfactory in form and substance to the Company and its counsel, to the following effect:

(i) Acquiror is a corporation existing in good standing under the laws of the State of Delaware, based solely on a

certificate of the Delaware Secretary of State. Acquiror Sub is a corporation existing in good standing under the laws of the state of Wisconsin, based solely on a certificate of the Wisconsin Secretary of State. Acquiror owns, directly or indirectly, all of the capital stock of Acquiror Sub.

(ii) The execution, delivery and performance of the Agreement and Plan of Merger (the "Agreement") has been duly authorized by all requisite corporate action on the part of Acquiror and Acquiror Sub. The Agreement constitutes the legally valid and binding obligations of Acquiror and Acquiror Sub, enforceable in accordance with its terms, subject to the following qualifications: [a] the enforceability against Acquiror or Acquiror Sub of the Agreement in accordance with its terms may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally; [b] the enforceability of the Agreement is subject to the effect of general principles of equity and the possible unavailability of specific performance or injunctive relief regardless of whether considered in a proceeding in equity or at law; and [c] no opinion is expressed as to any provision of the Agreement providing for the indemnification of persons for liability under federal or other securities laws.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

8.01 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval of this Agreement and the Merger by the shareholders of the Company:

(a) by mutual written consent of Acquiror and the Company;

(b) by either Acquiror or the Company in the event the conditions to such party's (the "Nonfailing Party") obligations under Article VII shall not have been met or waived by the Nonfailing Party on or prior to March 31, 1995 (provided, however, that this date may be extended by any party by written notice to the other parties for not more than 60 days thereafter if the Merger shall not have been consummated as a direct result of such party's (the "Failing Party") having failed (i) to satisfy the conditions in subsection 7.01(c) or (d), (ii) to resolve any action or proceeding as required by subsection 7.01(b) or (iii) to cure any failure by the Failing Party to perform in all material respects any other covenant or agreement required by this Agreement to be performed or complied with by the Failing Party prior to the Effective Time which is capable of being cured), but only if the party terminating has not caused the condition giving rise to termination to be not satisfied through its own action or inaction;

(c) by either Acquiror or the Company if any decree, permanent injunction, judgment, order or other action by any court of competent jurisdiction or any Governmental Entity preventing or prohibiting consummation of the Merger shall have become final and nonappealable;

(d) by Acquiror, if (A) the Board of Directors of the Company withdraws, modifies or changes in a manner materially adverse to Acquiror its recommendation of this Agreement or Merger or shall have resolved to do any of the foregoing, or (B) the Board of Directors of the Company shall have recommended to the shareholders of the Company any proposed acquisition of the Company by any Person or any "group" (as such term is defined under section 13(d) of the Exchange Act) other than Acquiror and its Affiliates by (i) merger, consolidation, share exchange, business combination or other similar transaction, (ii) purchase of all or a substantial part of the assets of the Company and its Subsidiaries, taken as a whole, or (iii) the acquisition of more than 50% of the Company's outstanding equity securities (a "Competing Transaction") or resolved to do so, or (C) a tender offer or exchange offer for 50% or more of the outstanding shares of capital stock of the Company is commenced, the Board of Directors of the Company, within 10 business days after such tender offer or exchange offer is so commenced, either fails to recommend against acceptance of such tender offer or exchange offer by its shareholders or takes no position with respect to the acceptance of such tender offer or exchange offer by its shareholders;

(e) by the Company if, in the exercise of its judgment as to its fiduciary duties to its shareholders as imposed by applicable law and, after consultation with and receipt of advice from outside legal counsel, the Company's Board of Directors determines that such termination is required by reasons of any Competing Transaction being made or proposed.

(f) by Acquiror, if any Update Schedule contains disclosures of any fact or condition which makes untrue, or shows to have been untrue, any representation or warranty by the Company in this Agreement, unless concurrently with the delivery of the Update Schedule, the Company represents and warrants that the disclosed fact or condition can and will be corrected at the Company's expense prior to the Effective Time; provided that the effect of the fact or condition so disclosed upon the representation or warranty so affected constitutes a Company Material Adverse Effect.

8.02 Effect of Termination. Subject to the remedies of the parties set forth in section 8.03(c), in the event of the termination of this Agreement pursuant to section 8.01, this Agreement shall forthwith become void, and, subject to sections 8.03(c) and (d), there shall be no liability under this Agreement on the part of Acquiror, Acquiror Sub or the Company or any of their respective officers or directors and all rights and obligations of each party hereto shall cease. The Acquiror's Confidentiality Agreement shall survive any termination of this Agreement.

8.03 Expenses.

(a) Except as provided in section 8.03(c), all Expenses incurred by the parties shall be borne solely and entirely by the party which has incurred the same. The Company shall pay for all Expenses related to printing, filing and mailing the Proxy Statement and all SEC and other regulatory filing fees incurred in connection with the Proxy Statement.

(b) "Expenses" as used in this Agreement shall include all reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party and its Affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement, the preparation, printing, filing and mailing of the Proxy Statement, the solicitation of shareholder approvals and all other matters related to the closing of the transactions contemplated by this Agreement.

(c) The Company and Acquiror each agree that with respect to any termination of this Agreement pursuant to section 8.01(b) as a direct result of a material intentional breach by a party of any of its covenants or agreements contained in this Agreement, all remedies available to the other party either in law or equity shall be preserved and survive the termination of this Agreement.

(d) If all conditions to the obligations of a party at Closing contained in Article VII of this Agreement have been satisfied (or waived by the party entitled to waive such conditions), and the other party does not proceed with the Closing, all remedies available to the other parties, either at law or in equity, on account of such failure to close, including, without limitation, the right to seek specific performance of this Agreement as well as the right to pursue a claim for damages on account of a breach of this Agreement, shall be preserved and shall survive any termination of this Agreement.

(e) The Company agrees that if this Agreement is terminated pursuant to section 8.01(d) or section 8.01(e), Company shall pay to Acquiror the sum of $6,140,000. Such payment shall be made as promptly as practicable but in no event later than the third business day following termination of this Agreement and shall be made by wire transfer of immediately available funds to an account designated by Acquiror. The Company and Acquiror each agree that the payment provided for in section 8.03(e) shall be the sole and exclusive remedy of Acquiror upon any termination of this Agreement as described in section 8.03(e) and such remedies shall be limited to the sum stipulated in section 8.03(e) regardless of the circumstances (including willful or deliberate

conduct) giving rise to such termination; provided that the provisions of this sentence shall in no way affect the rights of the parties under that certain Stock Option Agreement of even date herewith.

ARTICLE IX

GENERAL PROVISIONS

9.01 Non-Survival of Representations and Warranties. The respective representations and warranties of the parties in this Agreement shall expire with, and be terminated and extinguished upon, consummation of the Merger or termination of this Agreement, and thereafter neither the Company, Acquiror nor any of their respective officers, directors or employees shall have any liability whatsoever with respect to any such representation or warranty. This section 9.01 shall have no effect upon any other obligation of the parties hereto, whether to be performed before or after consummation of the Merger.

9.02 Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed to have been duly given or made upon receipt, if delivered personally, on the third business day following deposit in the U.S. mail if mailed by registered or certified mail (postage prepaid, return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like changes of address) or when sent by electronic transmission to the telecopier number specified below with receipt acknowledged:

(a) If to Acquiror or Acquiror Sub:

Humana Inc.
500 West Main Street
P.O. Box 1438
Louisville, KY 40201-1438
Telecopier No: 502-580-3615
Attention: W. Roger Drury
Chief Financial Officer

With a copy to:

Humana Inc.
500 West Main Street
P.O. Box 1438
Louisville, KY 40201-1438
Telecopier No: 502-580-3699
Attention: Walter E. Neely
Vice President & Associate General Counsel

(b) If to the Company:

CareNetwork, Inc.
111 West Pleasant Street
Milwaukee, WI 53212-0359
Telecopier No: 414-223-0168
Attention: Elwood Kleaver, President

With a copy to:

Reinhart, Boerner, Van Deuren,
Norris & Rieselbach, s.c.
1000 North Water Street
Suite 2100
Milwaukee, WI 53202
Telecopier No: 414-298-8097
Attention: James M. Bedore, Esq.

9.03 Amendment. This Agreement may be amended by the parties by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; provided, however, that after approval of this Agreement by the shareholders of the Company, no amendment may be made without further approval of such shareholders, which amendment would reduce the amount or change the type of consideration into which each share of Company Common Stock shall be converted pursuant to this Agreement upon consummation of the Merger.

This Agreement may not be amended except by an instrument in writing signed by each of the parties hereto.

9.04 Waiver. At any time prior to the Effective Time, any party may (a) extend the time for the performance of any of the obligations or other acts of any other party, (b) waive any inaccuracies in the representations and warranties of any other party contained in this Agreement or in any document delivered pursuant to this Agreement and (c) waive compliance by any other party with any of the agreements or conditions contained in this Agreement. Notwithstanding the foregoing, no failure or delay by either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by a party or parties to be bound thereby.

9.05 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

9.06 Severability. If any term or other provision of this Agreement is finally adjudicated by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

9.07 Entire Agreement. This Agreement (together with the Acquiror's Confidentiality Agreement, the Stock Option Agreement, the Exhibits, the disclosure schedules to this Agreement and the other documents delivered pursuant hereto), constitutes the entire agreement of the parties and supersedes all prior agreements and undertakings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof. Except as provided in the Stock Option Agreement, the parties hereby acknowledge that, no party shall have the right to acquire or shall be deemed to have acquired shares of common stock of the other party pursuant to the Merger until the consummation thereof.

9.08 Assignment. This Agreement shall not be assigned, whether by operation of law or otherwise.

9.09 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of and be enforceable by each party and its respective successors, and nothing in this Agreement, express or implied, other than pursuant to section 2.04 and sections 6.06 and 6.08 or the right to receive the consideration payable in the Merger pursuant to Article II, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

9.10 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Wisconsin, regardless of the laws that might otherwise govern under applicable principles of conflicts of law.

9.11 Counterparts. This Agreement may be executed by facsimile and in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

HUMANA INC.

BY: /S/Karen A. Coughlin
Karen A. Coughlin
Senior Vice President

HWS, INC.

BY: /S/Karen A. Coughlin
Karen A. Coughlin
Senior Vice President

CARENETWORK, INC.

BY: /S/Elwood I. Kleaver, Jr.
Elwood I. Kleaver, Jr.
President and Chief Executive Officer

OFFICERS AND DIRECTORS
OF
HUMANA INC.

| Name and Title | Address |
|---|---|
| *David A. Jones<br>Chairman of the Board<br>and Chief Executive Officer | The Humana Building<br>500 West Main Street<br>P.O. Box 1438<br>Louisville, KY 40201-1438 |
| *Wayne T. Smith<br>President and Chief<br>Operating Officer | " |
| W. Roger Drury<br>Chief Financial Officer | " |
| W. Larry Cash<br>Senior Vice President-<br>Finance and Operations | " |
| Karen A. Coughlin<br>Senior Vice President<br>-Region II | " |
| Philip B. Garmon<br>Senior Vice President<br>-Region I | " |
| Arthur P. Hipwell<br>Senior Vice President,<br>General Counsel<br>and Assistant Secretary | " |
| Ronald S. Lankford, M.D.<br>Senior Vice President<br>-Medical Affairs | " |
| Jose G. Abreu<br>Vice President<br>-Medicare Sales | " |
| George G. Bauernfeind<br>Vice President-Taxes | " |
| Douglas R. Carlisle<br>Vice President-Region I | " |
| James W. Doucette<br>Vice President<br>-Investments and Treasurer | The Humana Building<br>500 West Main Street<br>P.O. Box 1438<br>Louisville, KY 40201-1438 |
| Robert A. Horrar<br>Vice President<br>-Human Resources | " |
| Gail H. Knopf<br>Vice President<br>-Information Systems | " |
| Jerry L. McClellan<br>Vice President<br>-Financial Services | " |
| Mary M. McKinney<br>Vice President<br>-Internal Audit | " |
| Sheri E. Mitchell<br>Vice President<br>-Quality & Service<br>Excellence | " |

| Name and Title | Address |
|---|---|
| James E. Murray<br>Vice President<br>and Controller | " |
| Walter E. Neely<br>Vice President,<br>Associate General<br>General Counsel and<br>Assistant Secretary | " |
| Bruce D. Perkins<br>Vice President-<br>Operations Region II | " |
| Thomas D. Stroud<br>Vice President-Sales<br>and Marketing | The Humana Building<br>500 West Main Street<br>P.O. Box 1438<br>Louisville, KY 40201-1438 |
| David W. Wille<br>Vice President<br>and Chief Actuary | " |
| Joan O. Kroger<br>Secretary | The Humana Building<br>500 West Main Street<br>P.O. Box 1438<br>Louisville, KY 40201-1438 |
| Darlene A. Curlee<br>Assistant Secretary | " |
| Kathleen Pellegrino<br>Assistant Secretary | " |
| *K. Frank Austen, M.D. | Brigham and Women's Hospital<br>Harvard Medical School<br>The Seeley G. Mudd Building<br>Room 604, 250 Longwood Ave.<br>Boston, MA 02115 |
| *Michael E. Gellert | Windcrest Partners<br>122 E. 42nd Street-49th Fl.<br>New York, NY 10168-0130 |
| *John R. Hall | Ashland Oil, Inc.<br>P.O. Box 391<br>Ashland, KY 41114 |
| *David A. Jones, Jr. | Chrysalis Ventures, Inc.<br>400 W. Market Street, Suite 1610<br>Louisville, KY 40202 |
| *Irwin Lerner | IML Associates Inc.<br>17 East Breenbrook Road<br>North Caldwell, NJ 07006 |
| *W. Ann Reynolds, Ph.D. | The Chancellor<br>The City University of New York<br>535 E. 80th Street<br>New York, NY 10021 |