FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-11-15** | Period of Report: **1999-09-30**
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FILER

COVENTRY HEALTH CARE INC	Mailing Address	Business Address
CIK:**1054833**| IRS No.: **522073000** | State of Incorp.:**DE** | Fiscal Year End: **1231** Type: **10-Q** | Act: **34** | File No.: **000-29676** | Film No.: **99754923** SIC: **8011** Offices & clinics of doctors of medicine	*6705 ROCKLEDGE DR SUITE 100* *STE 250* *BETHESDA MD 20817*	*6705 ROCKLEDGE DR STE 100* *BETHESDA MD 20817* *3015810600*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1999

or

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

For the transition period from _______________ to _______________

Commission file number 0-19147

COVENTRY HEALTH CARE, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	52-2073000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6705 ROCKLEDGE DRIVE, SUITE 900 BETHESDA, MD 20817
(Address of principal executive office) (Zip Code)

(301) 581-0600
(Registrant's telephone number, including area code)

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

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 1999
Common Stock $.01 Par Value	59,213,414

COVENTRY HEALTH CARE, INC.

FORM 10-Q

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COVENTRY HEALTH CARE, INC.AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

<TABLE>
<CAPTION>

<S>	September 30, 1999 (unaudited) <C>	December 31, 1998 <C>
ASSETS		
Cash and cash equivalents	$ 185,409	$ 405,323
Short-term investments	71,009	46,714
Accounts receivable, net	51,804	43,466
Other receivables	33,417	23,126
Deferred income taxes	65,521	65,583
Other current assets	4,945	6,993
Total current assets	412,105	591,205
Long-term investments	293,209	162,546
Property and equipment, net	37,854	35,780
Goodwill and intangible assets, net	265,341	295,966
Other assets	6,488	5,731
Total assets	$ 1,014,997	$ 1,091,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
Medical claim liabilities	$ 282,734	$ 330,743
Other medical liabilities	59,811	73,079
Accounts payable and other accrued liabilities	101,156	115,717
Deferred revenue	20,374	46,414
Total current liabilities	464,075	565,953
Convertible exchangeable subordinated notes	--	45,538
Long-term debt	--	781
Deferred tax liabilities	33,809	32,909
Other long-term liabilities	5,901	9,509
Stockholders' equity:		

Preferred stock, $.01 par value; Series A, convertible, 6,000,000 shares authorized; 4,709,545 shares issued and outstanding in 1999	47	--
Common stock, $.01 par value; 200,000,000 shares authorized; 59,614,450 shares issued and 59,174,890 outstanding in 1999; and 59,287,454 shares issued and 58,847,894 outstanding in 1998	596	593
Additional paid-in capital	527,435	476,429
Accumulated other comprehensive (loss) income	(4,008)	794
Accumulated deficit	(7,858)	(36,278)
Treasury stock, at cost, 439,560 shares	(5,000)	(5,000)
Total stockholders' equity	511,212	436,538
Total liabilities and stockholders' equity	$ 1,014,997	$ 1,091,228

</TABLE>

See notes to condensed consolidated financial statements.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

<S>	Quarter ended September 30, 1999 <C>	Quarter ended September 30, 1998 <C>	Nine months ended September 30, 1999 <C>	Nine months ended September 30, 1998 <C>
Operating revenues:				
Managed care premiums	$ 509,815	$ 568,280	$ 1,529,088	$ 1,454,022
Management services	20,074	24,998	60,479	53,269
Total operating revenues	529,889	593,278	1,589,567	1,507,291
Operating expenses:				
Health benefits	437,674	505,518	1,310,804	1,261,817
Selling, general and administrative	73,790	78,077	227,962	206,434
Depreciation and amortization	7,034	7,504	21,079	18,141
AHERF charge	--	--	--	55,000
Merger costs	--	--	--	7,780
Total operating expenses	518,498	591,099	1,559,845	1,549,172
Operating earnings (loss)	11,391	2,179	29,722	(41,881)
Other income, net of interest expense	7,805	5,809	20,578	13,113
Earnings (loss) before income taxes	19,196	7,988	50,300	(28,768)
Provision for (benefit from) income taxes	8,226	2,920	21,880	(10,787)
Net earnings (loss)	$ 10,970	$ 5,068	$ 28,420	$ (17,981)
Net earnings (loss) per share				
Basic	$ 0.19	$ 0.09	$ 0.48	$ (0.36)
Diluted	$ 0.17	$ 0.09	$ 0.46	$ --

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</TABLE>

See notes to condensed consolidated financial statements.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

<TABLE>
<CAPTION>

	Nine months ended September 30, 1999	1998
<S>	<C>	<C>
Net cash (used in) provided by operating activities	$ (66,759)	$ 22,606
Cash flows from investing activities:		
Capital expenditures, net	(8,999)	(8,249)
Net proceeds from sale of intangibles	12,841	--
Sale of investments	171,863	85,093
Purchase of investments	(331,397)	(94,044)
Cash acquired with purchase of PHC	--	148,600
Net cash (used in) provided by investing activities	(155,692)	131,400
Cash flows from financing acitivities:		
Issuance of long-term debt and notes payable	--	2,478
Payments of long-term debt and notes payable	(829)	(1,797)
Net proceeds from issuance of stock and warrants	3,366	1,415
Net cash provided by financing activities	2,537	2,096
Net (decrease) increase in cash and cash equivalents	(219,914)	156,102
Cash and cash equivalents at beginning of the period	405,323	153,979
Cash and cash equivalents at end of the period	$ 185,409	$ 310,081
Supplemental disclosures of cash flow information		
Cash paid during the period was as follows:		
Interest	$ 25	$ 2,586
Income taxes	$ 23,920	$ 13,600

</TABLE>

See notes to condensed consolidated financial statements.

COVENTRY HEALTH CARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Coventry Health Care, Inc. and subsidiaries ("Coventry" or "the Company") contained in this report are unaudited but reflect all adjustments, consisting of normal recurring adjustments which, in the opinion of management, are necessary for the fair presentation of the results of the interim periods reflected. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission (the "SEC"). The results of operations for the interim periods reported herein are not necessarily indicative of results to be expected for the full year. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 1998, filed with the SEC on March 30, 1999.

Certain 1998 amounts have been reclassified to conform to the 1999 presentation.

2. NEW ACCOUNTING STANDARDS

Derivative Instruments - In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of the derivatives would be accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. SFAS 133 is effective for fiscal years beginning after June 15, 2000. The Company does not believe that adoption of SFAS 133 (as amended by SFAS 137) will have a material effect on its future results of operations.

Computer Software - Effective January 1, 1999, the Company adopted Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" issued by the American Institute of Certified Public Accountants ("AICPA"). SOP 98-1 provides authoritative guidance for the capitalization of certain costs related to computer software developed or obtained for internal applications, such as external direct costs of materials and services, payroll costs for employees and certain interest costs. Costs incurred during the preliminary project stage, as well as training and data conversion costs, are to be expensed as incurred. SOP 98-1 is effective for fiscal years beginning after December 15, 1998. The adoption of SOP 98-1 did not have a material effect on the Company's consolidated financial statements.

3. ACQUISITIONS AND DISPOSITIONS

Effective April 1, 1998, the Company completed its acquisition of certain health plans of Principal Health Care, Inc. ("PHC") from Principal Mutual Life Insurance Company, now known as Principal Life Insurance Company, ("Principal Life") for a total purchase price of approximately $330.2 million including transaction costs of approximately $5.7 million. The acquisition was accounted for using the purchase method of accounting and, accordingly, the operating results of PHC have been included in the Company's consolidated financial statements since the date of acquisition. The purchase price consisted of 25,043,704 shares of the Company's common stock at an assigned value of $11.96 per share. In addition, a warrant valued at $25.0 million ("the Warrant") was issued that grants Principal Life the right to acquire additional shares of the Company's common stock in the event that its ownership percentage of such common stock is diluted below 40%. The Warrant is included as a component of additional paid-in capital in the accompanying condensed consolidated financial statements. Through April 2003, Principal Life is restricted from buying additional shares of the Company's common stock to increase its ownership percentage above 40%.

Coincident with the closing of the transaction, the Company entered into a

Marketing Services Agreement and a Management Services Agreement with Principal Life. Both agreements extend through December 31, 1999. Pursuant to these agreements, the Company recognized revenue of approximately $6.5 million for the three months ended September 30, 1999, and $19.0 million for the nine months ended September 30, 1999 and expects to receive payments of approximately $25.4 million during the year ended December 31, 1999, inclusive of the $19.0 million.

At the closing, the Company also entered into a Renewal Rights Agreement and a Coinsurance Agreement with Principal Life, whereby the Company manages certain of Principal Life's indemnity health insurance policies in the markets where the Company does business and, on December 31, 1999, would offer to renew such policies in force at that time. Effective June 1, 1999, the Company amended these agreements with Principal Life and waived its rights to reinsure and renew Principal Life's health insurance indemnity business located in the Company's service area. The Company received $19.8 million in cash in exchange for waiving these rights. At the date of the amendment, the Renewal Rights and Coinsurance Agreements had a net book value of $19.7 million resulting in an after tax gain of $0.1 million.

As a result of the acquisition, the Company assumed an agreement with Principal Life, whereby Principal Life pays a fee for access to the Company's preferred provider organization ("PPO") network based on a fixed rate per employee entitled to access the PPO network and a percentage of savings realized by Principal Life. Under this agreement, the Company recognized revenue of approximately $2.0 million for the three months ended September 30, 1999 and $6.0 million for the nine months ended September 30, 1999. The maximum amount that can be paid under the percentage of savings component of the agreement is $8.0 million for 1999.

Effective November 30, 1998, the Company sold its subsidiary, Principal Health Care of Illinois, Inc., for $4.3 million in cash. The Illinois health

plan accounted for approximately 56,000 risk members and approximately 2,400 non-risk members as of November 30, 1998.

On December 31, 1998, the Company sold its subsidiary, Principal Health Care of Florida, Inc., for $95.0 million in cash. The Florida health plan accounted for approximately 156,000 risk members and approximately 5,500 non-risk members as of December 31, 1998.

The proceeds from both sales were used to retire the Company's credit facility, to assist in improving the capital position of the Company's regulated subsidiaries, and for other general corporate purposes. Given the short time period between the respective acquisition and sale dates and the lack of events or other evidence which would indicate differing values, no gain or loss was recognized on the sales of the Florida and Illinois health plans, as the sale prices were considered by management to be equivalent to the fair values allocable to these plans at the date of their acquisition from Principal Life in April 1998.

In connection with the acquisition of certain PHC health plans and the sales of the Florida and Illinois plans, the Company established reserves of approximately $33.0 million for the estimated transition costs of the PHC health plans. These reserves are primarily comprised of severance costs related to involuntary terminations of former PHC employees, relocation costs of former PHC personnel, lease termination costs and contract termination costs. Through September 30, 1999, the Company has expended approximately $28.0 million related to these reserves and expects to make payments on the remaining reserves through July 2002.

The purchase price for the PHC health plans, net of the impact of the sales of the Florida and Illinois health plans and net of the impact of waiving the Renewal Rights and Coinsurance Agreements, was allocated to the assets, including the identifiable intangible assets, and liabilities based on estimated fair values. The $180.2 million excess of purchase price over the net identified tangible assets acquired was allocated to identifiable intangible assets and goodwill. The allocated amounts and their related useful lives are as follows:

<TABLE>
<CAPTION>

Description	Amount (in thousands)	Useful Life
<S>	<C>	<C>
Marketing Services Agreement	$ 1,500	1.75 years
Customer Lists	7,233	5 years
HMO Licenses	10,000	20 years
Management Services Agreement	4,687	1.75 years
Goodwill	156,795	35 years
Total	$180,215	

</TABLE>

4. CONVERTIBLE EXCHANGEABLE SUBORDINATED NOTES

During the quarter ended June 30, 1997, Coventry entered into a securities purchase agreement with Warburg, Pincus Ventures, L.P. ("Warburg") and Franklin Capital Associates III, L.P. ("Franklin") for the purchase of $40 million of Coventry's 8.3% Convertible Exchangeable Senior Subordinated Notes ("Coventry Notes"), together with warrants to purchase 2.35 million shares of Coventry's common stock for $42.35 million. The Coventry Notes held by Warburg and Franklin were convertible into Coventry's common stock

and exchangeable at Coventry's or Warburg's option for shares of convertible preferred stock. During the second and third quarters of 1999, Coventry converted all Coventry Notes held by Franklin and Warburg, including interest, into Series A convertible preferred stock. The second quarter conversion was $4.7 million of notes into 473,705 shares and the third quarter conversion was $42.4 million of notes into 4,235,840 shares.

5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is as follows (in thousands):

<TABLE>
<CAPTION>

	Quarter ended 09/30/1999	Quarter ended 09/30/1998
<S>	<C>	<C>
Net income	$ 10,970	$ 5,068
Other comprehensive income, net of tax:		
Net unrealized (losses) gains on securities, net of reclassification adjustment	(722)	1,345
Comprehensive income	$ 10,248	$ 6,413

<CAPTION>

	Nine months ended 9/30/99	Nine months ended 9/30/98
<S>	<C>	<C>
Net income (loss)	$ 28,420	$(17,981)
Other comprehensive (loss) income, net of tax:		
Net unrealized (losses) gains on securities, net of reclassification adjustment	(4,802)	2,635
Comprehensive income (loss)	$ 23,618	$(15,346)

</TABLE>

6. EARNINGS (LOSS) PER SHARE

Basic earnings per share ("EPS") is based on the weighted average number of common shares outstanding during the period. Diluted EPS assumes the conversion of dilutive convertible preferred stocks, dilutive convertible notes and the exercise of dilutive options and warrants using the treasury stock method. Net income is increased for interest expense on the convertible notes.

The following table summarizes the earnings and the average number of common shares used in the calculation of basic and diluted EPS (in thousands, except for per share amounts):

<TABLE>
<CAPTION>

	Quarter ended September 30, 1999		
	Net Income (numerator)	Shares (Denominator)	Per share amount
<S>	<C>	<C>	<C>
Basic EPS	$10,970	59,102	$ 0.19
Effect of Dilutive Securities			
Options and warrants		517	
Convertible preferred stocks		1,717	
Convertible notes		2,993	
Diluted EPS	10,970	64,329	$ 0.17

</TABLE>

<TABLE>
<CAPTION>

	Quarter ended September 30, 1998		
	Net Income (numerator)	Shares (Denominator)	Per share amount
<S>	<C>	<C>	<C>
Basic EPS	$5,068	58,785	$ 0.09
Effect of Dilutive Securities			
Options and warrants		114	
Diluted EPS	$5,068	58,899	$ 0.09

</TABLE>

<TABLE>
<CAPTION>

	Nine months ended September 30, 1999		
	Net Income (numerator)	Shares (Denominator)	Per share amount
<S>	<C>	<C>	<C>
Basic EPS	$28,420	58,972	$ 0.48
Effect of Dilutive Securities			
Options and warrants		663	
Convertible preferred stocks		605	
Convertible notes		4,035	
Interest on convertible notes	848		
Diluted EPS	$29,268	64,275	$ 0.46

</TABLE>

<TABLE>
<CAPTION>

	Nine months ended September 30, 1998		
	Net Loss (Numerator)	Shares (Denominator)	Per share amount
Basic EPS	$(17,981)	50,242	$ (0 .36)

7. SEGMENT REPORTING

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information", requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is

available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS 131 also requires that all public business enterprises report information about the revenues derived from the enterprise's products or services (or groups of similar products and services), about the countries in which the enterprise earns revenues and holds assets and about major customers regardless of whether that information is used in making operating decisions.

The Company has two reportable segments: commercial products and government products. The products are provided to a cross section of employer groups and individuals through the Company's health plans in the Midwest, Mid-Atlantic, and Southeastern United States. Commercial products include Health Maintenance Organization (HMO), PPO, and Point-of-Service (POS) products. HMO products provide comprehensive health care benefits to members through a primary care physician. PPO and POS products permit members to participate in managed care but allow them the flexibility to utilize out-of-network providers in exchange for increased out-of-pocket costs.

Government products include Medicare Risk, Medicare Cost, and Medicaid. The Company provides comprehensive health benefits to members participating in government programs and receives premium payments from federal and state governments. The Company evaluates the performance of its operating segments and allocates resources based on gross margin. Assets are not allocated to specific products and, accordingly, cannot be reported by segment.

For the Quarter Ended September 30, 1999
(in thousands)

	Commercial	Government Programs	Total
Revenues	$370,845	$138,970	$509,815
Gross Margin	52,983	19,158	72,141

For the Quarter Ended September 30, 1998
(in thousands)

	Commercial	Government Programs	Total
Revenues	$441,460	$126,820	$568,280
Gross Margin	50,123	12,639	62,762

</TABLE>

<TABLE>
<CAPTION>

For the nine months ended September 30, 1999
(in thousands)

<S>	Commercial <C>	Government Programs <C>	Total <C>
Revenues	$1,136,373	$ 392,715	$1,529,088
Gross Margin	172,519	45,765	218,284

</TABLE>

<TABLE>
<CAPTION>

For the nine months ended September 30, 1998
(in thousands)

<S>	Commercial <C>	Government Programs <C>	Total <C>
Revenues	$1,113,649	$ 340,373	$1,454,022
Gross Margin	101,571	35,634	137,205

</TABLE>

Following are reconciliations of reportable segment information to financial statement amounts (in thousands):

<TABLE>
<CAPTION>

	For the Quarter Ended September 30,	
<S>	1999 <C>	1998 <C>
Revenues		
Reportable Segments	$ 509,815	$ 568,280
Other	20,074	24,998
Total Revenues	$ 529,889	$ 593,278
Earnings Before Income Taxes		
Gross margin from reportable segments	$ 72,141	$ 62,762
Other revenues	20,074	24,998
Sellings, general and administrative	(73,790)	(78,077)
Depreciation and amortization	(7,034)	(7,504)
Other income	7,838	8,389
Interest expense	(33)	(2,580)
Total Earnings Before Income Taxes	$ 19,196	$ 7,988

</TABLE>

<TABLE>
<CAPTION>

<S>	For the Nine Months Ended September 30, 1999 <C>	1998 <C>
Revenues		
Reportable Segments	$ 1,529,088	$ 1,454,022
Other	60,479	53,269
Total Revenues	$ 1,589,567	$ 1,507,291
Earnings (Loss) Before Income Taxes		
Gross margin from reportable segments	$ 218,284	$ 137,205
Other revenues	60,479	53,269
Sellings, general and administrative	(227,962)	(206,434)
Depreciation and amortization	(21,079)	(18,141)
Merger costs	--	(7,780)
Other income	22,310	19,513
Interest expense	(1,732)	(6,400)
Total Earnings (Loss) Before Income Taxes	$ 50,300	$ (28,768)

</TABLE>

8. AHERF CHARGE

The Company and certain affiliated hospitals of Allegheny Health, Education and Research Foundation (AHERF) have been involved in litigation to determine if the Company had the financial responsibility for medical services provided to the Company's members by the hospitals as a consequence of the bankruptcy filed by AHERF. As a result of the bankruptcy, AHERF failed to pay for medical services under its global capitation agreement with the Company covering approximately 250,000 Company members in the western Pennsylvania market.

AHERF filed for bankruptcy protection on July 21, 1998, and shortly thereafter the Company filed a lawsuit against the hospitals seeking a declaratory judgment that the Company was not obligated to pay in excess of $21.5 million to the hospitals for medical services provided by them to the Company's members. The lawsuit also included additional claims for monetary damages. In response, the hospitals filed a counterclaim alleging that the Company's subsidiary, HealthAmerica Pennsylvania, Inc., was liable to the hospitals for payment of these medical services.

As a result, the Company, which is ultimately responsible for these medical costs, notwithstanding the global capitation agreement, recorded a charge of $55.0 million in the second quarter of 1998 to establish a reserve for the medical costs incurred by its members under the AHERF global capitation agreement at the time of the bankruptcy filing. Although AHERF had not formally rejected the capitation agreement, the parties were no longer operating under its terms.

On July 22, 1999, the Company reached a settlement with the hospitals, including Allegheny General Hospital (AGH), formerly owned by AHERF, and its new owner, Western Pennsylvania Health Care System (West Penn), whereby the hospitals agreed that the Company would not be liable for the payment of the medical services rendered by the hospitals to the Company's members prior to July 21, 1998, the date of AHERF's bankruptcy filing. Simultaneous with the settlement, the Company signed a new three-year provider contract with West Penn. The conditions to execute the settlement and the provider contract were finalized in October 1999 and, as a result, all liability issues surrounding AHERF's failure to fulfill its contractual obligations and Coventry's remaining obligations have been determined and all AHERF-related litigation has been concluded.

As of September 30, 1999, approximately $35.4 million of the $55.0 million reserve had been paid for medical claims. As a result of the settlement, Coventry expects to release $6.3 million of the reserve, which will be reflected as a gain in the fourth quarter and year-end 1999 results. The balance of the reserve represents Coventry's remaining obligations under the settlement and will be expended through August 2007.

9. MERGER COSTS

In connection with the acquisition of the PHC health plans, the Company relocated its corporate headquarters from Nashville, Tennessee to Bethesda, Maryland. As a result, the Company established a one-time reserve in 1998 of approximately $7.8 million for the incurred and anticipated costs related to the relocation of the corporate office and other direct merger related costs. The reserve is primarily comprised of severance costs related to involuntary terminations, relocation costs for management personnel, and lease costs, net of sublease income, related to the unused space remaining at the old headquarters location. The anticipated merger costs were less than the original reserve established, resulting in a credit to earnings of $1.3 million in the fourth quarter of 1998. As of September 30, 1999, the Company expended approximately $5.9 million and expects to make payments through December 2002 related to these charges.

10. LEGAL PROCEEDINGS

Group Health Plan, Inc. ("GHP"), a health plan subsidiary of the Company, entered into an agreement, effective January 1, 1998, with Unity Health Network, L.L.C. ("Unity") for Unity's provider network to provide health care services to GHP's members in the southern and western areas of St. Louis County, Missouri. The agreement contained risk sharing provisions. Disputes have arisen under the agreement, cross-claims have been made and the matter has been submitted to arbitration before the American Arbitration Association. GHP is demanding payment from Unity of $7.6 million and specific performance under the agreement. Unity is demanding payment from GHP of $14.5 million, specific performance of certain provisions of the agreement and suspension of its payment obligations. The Company believes that GHP has fulfilled all of its obligations under the agreement, that the amount demanded by GHP is properly due to GHP, and that GHP does not owe Unity the amounts claimed by Unity. The parties are currently involved in arbitration proceedings. The Company intends to vigorously pursue this matter, and expects to have a decision prior to December 31, 1999.

In the normal course of business, the Company has been named as a defendant in various legal actions seeking payments for claims denied by the Company, medical malpractice, and other monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through September 30, 1999 may result in the assertion of additional claims. With respect to medical malpractice, the Company carries

professional malpractice and general liability insurance for each of its operations on a claims made basis with varying deductibles for which the Company maintains reserves. In the opinion of management, the outcome of these actions will not have a material adverse effect on the financial position or results of operations of the Company.

The Company's industry is heavily regulated and the laws and rules governing the industry and interpretations of those laws and rules are subject to frequent change. Existing or future laws could have significant impact on the Company's operations.

11. SUBSEQUENT EVENTS

On October 1, 1999, the Company acquired Carelink Health Plans ("Carelink"), the managed care subsidiary of Camcare, an integrated delivery system. Carelink, based in Charleston, West Virginia, has approximately 43,000 commercial HMO and POS members, 12,000 Medicaid members and 1,500 enrollees from self-insured employers, with annual premium revenue of approximately $93.0 million. Carelink's service area is generally contiguous with the West Virginia counties currently served by the Company's health plans in West Virginia and Virginia. The transaction was accounted for as a purchase in which the Company paid approximately $8.0 million in cash in exchange for all of Carelink's stock. Carelink is a wholly-owned subsidiary of Coventry, and will continue to use the Carelink name in its service area. As part of the agreement, Carelink entered into a 5-year provider contract with Camcare for health care services and a 3-year exclusive contract to continue providing health benefit coverage to Camcare's employees and their dependents.

On November 1, 1999, the Company's subsidiary, Principal Health Care of the Carolinas, Inc., acquired Kaiser Foundation Health Plan of North Carolina's commercial membership in Charlotte, North Carolina for approximately $150 per member. Kaiser's Charlotte operation currently has approximately 31,000 HMO and POS members and generates approximately $53.0 million in annual premium revenue.

On November 5, 1999, the Company announced that it intends to close its subsidiary, Principal Health Care of Indiana, Inc., by the end of the second quarter 2000, pending regulatory approval. The health plan currently has approximately 26 employees and 24,000 members throughout the state. As a result of the costs associated with exiting the Indiana market, the Company expects to take a $2.0 million charge in the fourth quarter of 1999.

On November 12, 1999, Coventry announced that it had signed a definitive agreement with The Anthem Companies, Inc. to acquire Anthem's West Virginia managed care subsidiary, PrimeONE, Inc. PrimeONE has approximately 18,000 commercial members and annual premium revenue of $32 million. PrimeONE's service area covers the entire state of West Virginia, expanding Coventry's existing West Virginia service area into the north-eastern section of the state. The acquisition will bring Coventry's total membership in West Virginia to over 109,000 and is expected to close in the first quarter of 2000, subject to regulatory and other customary approvals and minimum membership criteria.

ITEM 2:

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

Quarter and nine months ended September 30, 1999 and 1998

GENERAL

Overview

Coventry Health Care, Inc. ("Coventry"), successor-in-interest to Coventry Corporation, is a managed health care company that provides comprehensive health benefits and services to a broad cross-section of employer and government-funded groups in the Midwest, Mid-Atlantic and Southeastern United States.

As of September 30, 1999, Coventry had 1,125,699 members for whom it assumes underwriting risk ("risk members") and 238,304 members of self-insured employers for whom it provides management services but does not assume underwriting risk ("non-risk members"). The following tables show the total number of members in continuing operations as of September 30, 1999 and 1998 and the percentage change in membership between those dates, where applicable.

COVENTRY HEALTH CARE, INC.
MEMBERSHIP

<TABLE>
<CAPTION>

	September 30, 1999	September 30, 1998	% Change
<S>	<C>	<C>	<C>
Membership by Market:			
At-risk membership in continuing operations:			
Pennsylvania	391,639	425,684	(8.0%)
St. Louis	311,893	315,516	(1.1%)
Iowa	76,703	80,516	(4.7%)
Kansas City	64,148	46,496	38.0%
Delaware	57,048	53,948	5.7%
Richmond	52,302	54,596	(4.2%)
Wichita	39,976	33,839	18.1%
Louisiana	36,267	38,881	(6.7%)
Nebraska	26,686	33,825	(21.1%)
Georgia	26,314	17,763	48.1%
Indiana	23,584	27,275	(13.5%)
Carolina	19,139	21,530	(11.1%)
Total at-risk membership	1,125,699	1,149,869	(2.1%)
Self-funded membership	238,304	220,332	8.2%
Total membership in continuing operations:	1,364,003	1,370,201	(0.5%)
Membership by Product:			
At-risk membership in continuing operations:			
Commercial	933,348	987,390	(5.5%)
Medicare risk	66,791	60,979	9.5%
Medicare cost	702	1,954	(64.1%)
Medicaid	124,858	99,546	25.4%
Total at-risk membership	1,125,699	1,149,869	(2.1%)
Self-funded membership	238,304	220,332	8.2%
Total membership in continuing operations	1,364,003	1,370,201	(0.5%)

</TABLE>

Coventry's operating expenses are primarily medical costs, including medical claims under contractual relationships with a wide variety of providers, and capitation payments. Medical claims expense also includes an estimate of claims incurred but not reported ("IBNR"). Coventry currently believes that the estimates for IBNR liabilities are adequate to satisfy its ultimate medical claims liability after all medical claims have been reported. In determining the Company's IBNR liabilities, Coventry employs

plan by plan standard actuarial reserve methods (specific to the plan's membership, product characteristics, geographic territories and provider network) that consider utilization frequency and unit costs of inpatient, outpatient, pharmacy and other medical costs, as well as claim payment backlogs and the timing of provider reimbursements. Reserve estimates are reviewed by underwriting, finance and accounting, and other appropriate plan and corporate personnel and judgments are then made as to the necessity for reserves in addition to the estimated amounts. Changes in assumptions for medical costs caused by changes in actual experience, changes in the delivery system, changes in pricing due to ancillary capitation and fluctuations in the claims backlog could cause these estimates to change in the near term. Coventry periodically monitors and reviews its IBNR reserves, and as actual settlements are made or accruals adjusted, reflects these differences in current operations.

Acquisitions and Dispositions

Effective April 1, 1998, Coventry completed its acquisition of certain health plans of Principal Health Care, Inc. ("PHC") from Principal Mutual Life Insurance Company, now known as Principal Life Insurance Company, ("Principal Life") for a total purchase price of approximately $330.2 million including transaction costs of approximately $5.7 million. The acquisition was accounted for using the purchase method of accounting and, accordingly, the operating results of PHC have been included in Coventry's consolidated financial statements since the date of acquisition. The purchase price consisted of 25,043,704 shares of Coventry's common stock at an assigned value of $11.96 per share. In addition, a warrant valued at $25.0 million ("the Warrant") was issued that grants Principal Life the right to acquire additional shares of Coventry's common stock in the event that its ownership percentage of such common stock is diluted below 40%. The Warrant is included as a component of additional paid-in capital in the accompanying consolidated financial statements. Through April 2003, Principal Life is restricted from buying additional shares of Coventry's common stock to increase its ownership percentage above 40%.

Coincident with the closing of the transaction, Coventry entered into a Renewal Rights Agreement and a Coinsurance Agreement with Principal Life, whereby it manages certain of Principal Life's indemnity health insurance policies in the markets where Coventry does business and, on December 31, 1999, would offer to renew such policies in force at that time. Effective June 1, 1999, Coventry amended these agreements with Principal Life and waived its rights to reinsure and renew Principal Life's health insurance indemnity business located in Coventry's service area. Coventry received $19.8 million in cash in exchange for waiving these rights. At the date of the amendment, the Renewal Rights and Coinsurance Agreements had a net book value of $19.7 million resulting in an after tax gain of $0.1 million.

At the closing, Coventry also entered into a Marketing Services Agreement and a Management Services Agreement with Principal Life. Both agreements extend through December 31, 1999. Pursuant to the agreements, Coventry recognized revenue of approximately $6.5 million for the three months ended September 30, 1999, and $19.0 million for the nine months ended September 30, 1999, and expects to receive payments of approximately $25.4 million during the year ended December 31, 1999, inclusive of the $19.0 million.

As a result of the acquisition, Coventry assumed an agreement with Principal Life, whereby Principal Life pays a fee for access to Coventry's

preferred provider organization ("PPO") network based on a fixed rate per employee entitled to access the PPO network and a percentage of savings realized by Principal Life. Under this agreement, Coventry recognized revenue of approximately $2.0 million for the three months ended September 30, 1999 and $6.0 million for the nine months ended September 30, 1999. The maximum amount that can be paid under the percentage of savings component of the agreement is $8.0 million for 1999.

On December 31, 1999, the Marketing Services Agreement, Management Services Agreement, and PPO access agreement with Principal Life will expire and Coventry will no longer receive revenue under these agreements. In anticipation of the loss of these fees, Coventry is reducing selling, general and administrative ("SG&A") costs through cost savings from service center consolidation, headcount reductions and across-the-board reductions in administrative expenses. In addition to SG&A reductions, Coventry plans to implement rating improvements in two specific large groups, to improve margins in the central Pennsylvania Medicare market, to improve margins in the St. Louis Medicare market, and to increase gross margin through acquisitions, including the recently completed acquisitions in Charlotte and West Virginia.

Effective November 30, 1998, Coventry sold its subsidiary, Principal Health Care of Illinois, Inc., for $4.3 million in cash. The Illinois health plan accounted for approximately 56,000 risk members and approximately 2,400 non-risk members as of November 30, 1998.

On December 31, 1998, Coventry sold its subsidiary, Principal Health Care of Florida, Inc., for $95.0 million in cash. The Florida health plan accounted for approximately 156,000 risk members and approximately 5,500 non-risk members as of December 31, 1998.

The proceeds from both sales were used to retire Coventry's credit facility, to assist in improving the capital position of its regulated subsidiaries, and for other general corporate purposes. Given the short time period between the respective acquisition and sale dates and the lack of events or other evidence which would indicate differing values, no gain or loss was recognized on the sales of the Florida and Illinois health plans, as the sale prices were considered by management to be equivalent to the fair values allocable to these plans at the date of their acquisition from Principal Life in April 1998.

In connection with the acquisition of certain PHC health plans and the sales of the Florida and Illinois plans, Coventry established reserves of approximately $33.0 million for the estimated transition costs of the PHC health plans. These reserves are primarily comprised of severance costs related to involuntary terminations of former PHC employees, relocation costs of former PHC personnel, lease termination costs and contract termination costs. Through September 30, 1999, Coventry has expended approximately $28.0 million related to these reserves and expects to make payments on the remaining reserves through July 2002.

In connection with the acquisition of PHC health plans, the Company relocated its corporate headquarters from Nashville, Tennessee to Bethesda, Maryland. As a result, the Company established a one-time reserve in 1998 of approximately $7.8 million for the incurred and anticipated costs related to the relocation of the corporate office and other direct merger related costs.

The reserve is primarily comprised of severance costs related to involuntary terminations, relocation costs for management personnel, and lease costs, net of sublease income, related to the unused space remaining at the old headquarters location. The anticipated merger costs were less than the original reserve established, resulting in a credit to earnings of $1.3 million in the fourth quarter of 1998. As of September 30, 1999, the Company expended approximately $5.9 million and expects to make payments through December 2002 related to these charges.

Effective October 1, 1999, Coventry completed the transaction with Camcare, an integrated delivery system, to acquire its managed care subsidiary, Carelink Health Plans ("Carelink"). Carelink, based in Charleston, West Virginia, has approximately 43,000 commercial HMO and POS members, 12,000 Medicaid members and 1,500 enrollees from self-insured employers with annual premium revenue of approximately $93.0 million. Carelink's service area is generally contiguous with the West Virginia counties currently served by Coventry's health plans in West Virginia and Virginia. The transaction was accounted for as a purchase in which the Company paid approximately $8.0 million in cash (subject to final membership verification) in exchange for all of Carelink's stock. Carelink is a wholly-owned subsidiary of Coventry, and will continue to use the Carelink name in its service area. As part of the agreement, Carelink entered into a 5-year provider contract with Camcare for health care services and a 3-year exclusive contract to continue providing health benefit coverage to Camcare's employees and their dependents.

On November 1, 1999, Coventry's subsidiary, Principal Health Care of the Carolinas, Inc., acquired Kaiser Foundation Health Plan of North Carolina's commercial membership in Charlotte, North Carolina for approximately $150 per member. Kaiser's Charlotte operation currently has approximately 31,000 HMO and POS members and generates approximately $53.0 million in annual premium revenue. Coventry believes the acquisition will improve its North Carolina health plan's financial position and allow the plan to capitalize on the growth potential in the Charlotte market.

On November 5, 1999, Coventry announced that it intends to close its subsidiary, Principal Health Care of Indiana, Inc., by the end of the second quarter 2000, pending regulatory approval. The health plan currently has approximately 26 employees and 24,000 members throughout the state. As a result of the cost associated with exiting the Indiana market, Coventry expects to take a $2.0 million charge in the fourth quarter of 1999.

The Indiana health plan was not operating profitably or demonstrating good prospects for future growth. Although closing the plan will not have a substantial impact on consolidated earnings, it will allow Coventry to focus resources and management attention on its other markets. Coventry's transition plan gives employers and members ample time to obtain coverage through one of the many other companies operating in Indiana, and the Company will work with employers to make the transition process as smooth as possible.

On November 12, 1999, Coventry announced that it had signed a definitive agreement with The Anthem Companies, Inc. to acquire Anthem's West Virginia managed care subsidiary, PrimeONE, Inc. PrimeONE has approximately 18,000 commercial members and annual premium revenue of $32 million. PrimeONE's service area covers the entire state of West Virginia, expanding Coventry's existing West Virginia service area into the north-eastern section of the state. The acquisition will bring Coventry's total membership in West Virginia to over 109,000 and is expected to close in the first quarter of 2000, subject to regulatory and other customary approvals and minimum membership criteria. The Company plans to merge PrimeONE, based in Charleston, West Virginia, with its existing Carelink operations, also based in Charleston, immediately following the acquisition. The acquisition of PrimeONE continues Coventry's efforts to build market share in existing and contiguous service areas through strategic, financially attractive acquisitions. This transaction expands our West Virginia service area statewide and increases our size in a market where we already built market share earlier this year through the acquisition of Carelink Health Plans.

Legal Proceedings

The Company and certain affiliated hospitals of Allegheny Health, Education and Research Foundation (AHERF) have been involved in litigation to determine if the Company had the financial responsibility for medical services provided to the Company's members by the hospitals as a consequence of the bankruptcy filed by AHERF. As a result of the bankruptcy, AHERF failed to pay for medical services under its global capitation agreement with the Company covering approximately 250,000 Company members in the western Pennsylvania market. AHERF filed for bankruptcy protection on July 21, 1998, and shortly thereafter the Company filed a lawsuit against the hospitals seeking a declaratory judgment that the Company was not obligated to pay in excess of $21.5 million to the hospitals for medical services provided by them to the Company's members. The lawsuit also included additional claims for monetary damages. In response, the hospitals filed a counterclaim alleging that the Company's subsidiary, HealthAmerica Pennsylvania, Inc., was liable to the hospitals for payment of these medical services. As a result, the Company, which is ultimately responsible for these medical costs, notwithstanding the global capitation agreement, recorded a charge of $55.0 million in the second quarter of 1998 to establish a reserve for the medical costs incurred by its members under the AHERF global capitation agreement at the time of the bankruptcy filing. Although AHERF had not formally rejected the capitation agreement, the parties were no longer operating under its terms. On July 22, 1999, the Company reached a settlement with the hospitals, including Allegheny General Hospital (AGH), formerly owned by AHERF, and its new owner, Western Pennsylvania Health Care System (West Penn), whereby the hospitals agreed that the Company would not be liable for the payment of the medical services rendered by the hospitals to the Company's members prior to July 21, 1998, the date of AHERF's bankruptcy filing. Simultaneous with the settlement, the Company signed a new three-year provider contract with West Penn. The conditions to execute the settlement and the provider contract were finalized in October 1999 and, as a result, all liability issues surrounding AHERF's failure to fulfill its contractual obligations and Coventry's remaining obligations have been determined and all AHERF-related litigation has been concluded. As of September 30, 1999, approximately $35.4 million of the $55.0 million reserve had been paid for medical claims. As a result of the settlement, Coventry expects to release $6.3 million of the reserve, which will be reflected as a gain in the fourth quarter and year-end 1999 results. The balance of the reserve represents Coventry's remaining obligations under the settlement and will be expended through August 2007.

Group Health Plan, Inc. ("GHP"), a health plan subsidiary of the Company, entered into an agreement effective January 1, 1998 with Unity Health Network, L.L.C. ("Unity") for Unity's provider network to provide health care services to GHP's members in the southern and western areas of St. Louis County, Missouri. The agreement contained risk sharing provisions. Disputes have arisen under the agreement, cross-claims have been made and the matter has been submitted to arbitration before the American Arbitration Association. GHP is demanding payment from Unity of $7.6 million and specific performance under the agreement. Unity is demanding payment from GHP of $14.5 million, specific performance of certain provisions of the agreement and suspension of its payment obligations. The Company believes that GHP has fulfilled all of its obligations under the agreement, that the amount demanded by GHP is properly due to GHP, and that GHP does not owe Unity the amounts claimed by Unity. The parties are currently involved in arbitration proceedings. The Company intends to vigorously pursue this matter, and expects to have a decision prior to December 31, 1999.

Other

As of December 31, 1998, Coventry exited the Medicare program in several counties representing approximately 18,000 members. Approximately 10,000 of those members were in the Florida and Illinois health plans that were sold effective December and November 1998, respectively. The remaining markets were exited because the reimbursement rates were not adequate and/or Coventry was not successful in renegotiating adequate reimbursement rates.

On July 13, 1999, Coventry announced a new program designed to provide total health and lifestyle management to the Medicare population. The 5,000 member pilot, launched in the Pittsburgh area, will combine a system of improved delivery of care with specialized life and medical interventions for seniors with varying care needs.

RESULTS OF OPERATIONS

QUARTERS ENDED SEPTEMBER 30, 1999 AND 1998

Managed care premiums decreased by $58.5 million, or 10.3%, from the prior year third quarter. This decrease was primarily attributable to the reduction of membership resulting from the sales of the Florida and Illinois health plans in the fourth quarter of 1998. Exclusive of the Florida and Illinois operations, managed care premiums increased by $25.9 million, or 5.4%, primarily due to the increase in Medicare risk and Medicaid membership of 31,124, or 19.4%, in continuing markets.

In addition to the increase in Medicare risk and Medicaid membership, combined premium yields increased by an average of $11.10, or 7.8%, on a per member per month ("PMPM") basis to $152.68 PMPM, attributable to rate increases.

The Medicare risk and Medicaid programs continue to grow in existing markets through recently expanded programs. The increase in Medicare risk and Medicaid membership was offset by a decrease in commercial membership of 54,042, or 5.5%. The decrease in commercial membership occurred primarily in the Pennsylvania market and was attributable to the disruption caused by the AHERF bankruptcy filing and the conversion of a large group from a commercial risk product to a self-funded product. Membership also decreased in other markets due to Coventry's efforts to adhere to a strict pricing discipline. Coventry will continue to be diligent in its attempt to obtain adequate premium increases and expects its commercial premium rates to increase in excess of 10% for renewals in the fourth quarter of 1999.

Management services revenue decreased $4.9 million, or 19.7%, from the prior year third quarter primarily due to the decrease in PPO revenue under Coventry's Agreement with Principal Life.

Health benefits expense decreased $67.8 million, or 13.4%, from the prior year third quarter. Excluding the Florida and Illinois operations, health benefits expense increased $3.3 million, or 0.8%. Coventry's medical loss ratio decreased significantly from 89.0% in the prior year's third quarter to 85.8% in the current year's third quarter.

As previously discussed, in July 1998 AHERF (the global capitation provider organization for Coventry members in western Pennsylvania) filed for bankruptcy protection under Chapter 11. In addition to the charge for the reserve established to provide for the estimated IBNR claims on behalf of the globally capitated Coventry members at the date of the bankruptcy filing, the medical loss ratio for such members was negatively affected compared to the percentage of premium paid to AHERF under the global capitation agreement. In addition, Coventry increased administrative staff for patient utilization and medical management in western Pennsylvania.

Coventry continues to focus on ways to control its medical costs, including implementation of best practices to reduce inpatient days and improvement of the overall quality and level of care. Coventry is also continuously monitoring and renegotiating with its provider networks to improve reimbursement rates and improve member access to providers.

Medical claim liability accruals are periodically monitored and reviewed with differences for actual settlements from reserves reflected in current operations. In addition to the procedures for determining reserves as discussed above, Coventry reviews the actual payout of claims relating to prior period accruals, which may take up to six months to fully develop. Medical costs are affected by a variety of factors, including the severity and frequency of claims, that are difficult to predict and may not be entirely within the Coventry's control. Coventry continually refines its reserving practices to incorporate new cost events and trends.

SG&A expense decreased $4.3 million, or 5.5%, from the prior year third quarter, due primarily to the sale of Florida & Illinois health plans. SG&A expense, as a percent of revenue, increased to 13.9% for the quarter ended September 30, 1999, from 13.2% in the prior year third quarter. The prior year third quarter was unusually low due to changes in estimates of certain accrued amounts in that quarter. In an effort to control costs and improve customer service, Coventry is in the process of transferring certain of its operating activities (e.g., customer service, claims processing, billing and enrollment) to regional service centers. All activities are expected to be fully transferred by the end of the second quarter of 2000.

Depreciation and amortization decreased $0.5 million, or 6.3%, from the prior year third quarter. This decrease was primarily attributable to the reduction of intangible assets resulting from the sales of the Florida and Illinois health plans and the sale of the Renewal Rights and Coinsurance Agreements described above.

Other income, net of interest expense, increased by $2.0 million, or 34.4%, from the prior year third quarter. On a same store basis, other income, net of interest expense, increased $3.1 million, or 144.7%, primarily due to the reduction of interest expense from the reduction of debt.

Earnings from operations increased to $11.4 million from $2.2 million in the prior year third quarter attributable to the various factors described above.

Coventry's net income was $11.0 million compared to net income of $5.1 million for the third quarter of 1998. Net income per share was $0.17 for the third quarter of 1999 compared to net income per share of $0.09 in the prior year third quarter. The weighted average common shares outstanding was approximately 64,329,000 and 58,899,000 on a diluted basis, for the quarters ended September 30, 1999 and 1998, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

Managed care premiums increased $75.1 million for the nine months ended September 30, 1999, or 5.2%, from the corresponding period in 1998 primarily attributable to the additional revenue associated with the acquisition of the

PHC health plans in April 1998. The increase was also due to the increase in Medicare risk and Medicaid membership of 31,124, or 19.4%, in continuing

markets. In addition to the increase in risk membership, premiums increased by an average of $10.16, or 7.3%, on a defined above PMPM basis, to $149.90 PMPM, attributable to rate increases coupled with changes in the overall product mix due to the acquisition of the PHC health plans. The Medicare risk and Medicaid programs continue to grow in existing markets through recently expanded programs. The increase in Medicare risk and Medicaid membership was offset by a decrease in commercial membership of 54,042, or 5.5%. The decrease in commercial membership occurred primarily in the western Pennsylvania market, attributable to the disruption caused by the AHERF bankruptcy filing and the conversion of a large group from a commercial risk product to a self-funded product. Membership also decreased in other markets due to Coventry's efforts to adhere to strict pricing discipline. Coventry will continue to be diligent in attempting to obtain adequate premium increases and expects its commercial premium rates to increase in excess of 10% for renewals in the fourth quarter of 1999.

Management services revenue increased $7.2 million for the nine months ended September 30, 1999, or 13.5%, from the corresponding period in 1998 primarily attributable to the PHC Administrative Services Only ("ASO") operations and the conversion of a large group from a commercial risk product to a self-funded product. Management services and marketing services agreements that were entered into coincident with the acquisition of the PHC health plans accounted for approximately $3.6 million, or 50.0% of the increase.

Health benefits expense increased $49.0 million for the nine months ended September 30, 1999, or 3.9%, from the corresponding period in 1998 due to the additional expenses associated with the acquisition of the PHC health plans in April 1998. Coventry's medical loss ratio decreased slightly to 85.7% from 86.8% in the prior year nine months due to premium rate increases which were a result of Coventry's efforts to maintain strict pricing discipline.

SG&A expense increased $21.5 million, or 10.4%, from the corresponding period in 1998. SG&A expense, as a percent of revenue, increased to 14.3% for the nine months ended September 30, 1999, from 13.7% in the corresponding period in the prior year primarily attributable to additional costs associated with the PHC health plans. In an effort to control costs and improve customer service, Coventry is in the process of transferring certain of its operating activities (e.g., customer service, claims processing, billing and enrollment) to regional service centers. All activities are expected to be fully transferred by the end of the second quarter of 2000.

Depreciation and amortization increased $2.9 million, or 16.2%, compared to the corresponding period in the prior year primarily as a result of the additional amortization related to the intangibles recorded as part of the acquisition of the PHC health plans in April 1998.

Other income, net of interest expense, increased $7.5 million, or 56.9%, for the nine months ended September 30, 1999 from the corresponding period in 1998, primarily due to the reduction of interest expense from the reduction of debt and increased investment income resulting from the increase in invested assets subsequent to the acquisition of the PHC health plans.

Earnings from operations increased $71.6 million, or 171.0% from the corresponding period in 1998. Excluding charges related to AHERF and the relocation of the corporate office, operating earnings increased $8.8 million, or 42.2%, attributable to the various factors described above.

Coventry's net income was $28.4 million compared to a loss of $18.0 million for the corresponding period ended September 30, 1998. Net income per share was $0.46 for the nine months of 1999 compared to a net loss per share of $0.36 in the nine months of 1998. Excluding the AHERF charge and merger costs, Coventry would have reported earnings per share of $0.40 in the corresponding period in 1998. The weighted average common shares outstanding were approximately 64,275,000 and 54,102,000 on a diluted basis for the nine months ended September 30, 1999 and 1998, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Coventry's total cash and investments, excluding deposits of $24.3 million restricted under state regulations, decreased $76.5 million to $525.3 million at September 30, 1999 from $601.8 million at December 31, 1998. The decrease is primarily attributable to $66.8 million of cash used in operations for the nine month period. A significant portion of the cash used in operations (approximately $51.6 million) was used to pay the runout of medical claims associated with Principal Health Care of Florida, Inc. and Principal Health Care of Illinois, Inc., the two health plans that were sold effective December 31, 1998 and November 30, 1998, respectively. The reduction in cash and investments was also attributable to the reduction of deferred revenue resulting from changes in the timing of premium payments from the U.S. Health Care Financing Administration for Medicare membership and Coventry's efforts to reduce medical claims inventory in 1999.

Coventry's investment guidelines emphasize investment-grade fixed-income instruments to provide short-term liquidity and minimize the risk to principal. Coventry believes that as its long-term investments are available for sale, the amount of such investments should be added to current assets when assessing its working capital and liquidity; on such basis, current assets plus long-term investments available for sale, less short-term liabilities, increased to $241.2 million at September 30, 1999 from $187.8 million at December 31, 1998.

Coventry's HMO and insurance company subsidiary are required by state regulatory agencies to maintain minimum surplus balances, thereby limiting the dividends Coventry may receive from these companies. Including statutory reserve requirements, Coventry's regulated subsidiaries had surpluses in excess of requirements of approximately $91.2 million and $93.4 million at September 30, 1999 and December 31, 1998, respectively. Not including statutory reserves, Coventry had cash and investments of approximately $74.5 million and $96.8 million at September 30, 1999 and December 31, 1998, respectively. These funds are available to pay intercompany balances to regulated subsidiaries and for general corporate purposes. Coventry also has entered into agreements with certain of its regulated subsidiaries to provide additional capital, if necessary, to prevent the subsidiary's insolvency.

During the quarter ended June 30, 1997, Coventry entered into a securities purchase agreement ("Warburg Agreement") with Warburg, Pincus Ventures, L.P. ("Warburg") and Franklin Capital Associates III, L.P. ("Franklin") for the purchase of $40.0 million of Coventry's 8.3% Convertible Exchangeable Senior Subordinated Notes ("Coventry Notes"), together with warrants to purchase 2.35 million shares of Coventry's common stock for $42.35 million. The original amount of the Coventry Notes, $36.0 million held by Warburg and $4.0 million held by Franklin, were convertible into 3.6 million shares and 0.4 million shares of Coventry's common stock,

respectively, and were exchangeable at Coventry's or Warburg's option for shares of convertible preferred stock. During the second and third quarters of 1999, Coventry converted all Coventry Notes held by Franklin and Warburg totaling $47.1 million, including interest, into 4,709,545 shares of Series A convertible preferred stock.

Projected capital investments in 1999 of approximately $15.0 million consist primarily of computer hardware, software and related equipment costs associated with the development and implementation of improved operational and communications systems. Approximately $9.0 million, net has been expended during the nine months ended September 30, 1999.

Coventry believes that cash flows generated from operations, cash on hand and investments, and excess funds in certain of its regulated subsidiaries will be sufficient to fund continuing operations through September 30, 2000.

IMPACT OF YEAR 2000

Coventry's business is significantly dependent on information systems ("IS"). Coventry has implemented a Year 2000 readiness program designed to prevent material information system disruption associated with the millennium date change. The program includes an inventory and review of all core application systems, networks, desktop systems, infrastructure and critical information supply chains. Coventry's Year 2000 readiness program can be broken down into five categories: 1) IS hardware, software and networks, 2) office equipment which relies on microchips or telecommunications, 3) buildings and facilities, 4) business partners and customers, and 5) business risk and contingency planning. As anticipated, the Year 2000 readiness program was substantially completed by the second quarter of 1999. The total estimated cost of the program is approximately $13.1 million, of which $12.2 million had been incurred through September 30, 1999. No material impact on critical IS development was caused by Year 2000 initiatives. The cost of Year 2000 modifications is based on management's best estimates. Actual costs, however, may differ from those currently anticipated. All Year 2000 initiatives are monitored by a steering committee made up of management personnel representing Coventry's legal, compliance, finance, actuarial, medical and IS departments. The steering committee reports the status of Coventry's Year 2000 readiness program to senior management, who report to the board of directors.

While Coventry currently believes that its planning efforts and anticipated modifications to existing systems and purchases of new systems will be adequate to address its Year 2000 concerns, there can be no assurance that the systems of other companies on which Coventry's systems and operations rely will be converted on a timely basis and will not have a material adverse effect on Coventry.

The specific phases of the Year 2000 readiness program are as follows:

IS Hardware, Software and Networks

Coventry has historically purchased its core software applications rather than build them. Coventry is currently operating on two different platforms for its core managed health care software applications. The former Coventry Corporation health plans use the IDX managed care system. The current release of that system is vendor certified to be Year 2000 compliant and Coventry has converted its applications to that current release in a live

production environment. All operating system upgrades on above-named systems have been completed. Future Date Testing for these systems were completed as scheduled. The former PHC health plans are using a different third party product, which has been customized and is no longer supported by the vendor. That system utilizes Julian dates for all internal processes and is Year 2000 compliant. As part of Coventry's readiness program, the entire application has been reviewed, necessary changes identified and programming modifications have been completed, tested and are in production. The computer operating systems are tested and are in production.

All internally developed systems have been inventoried and plans made to upgrade, modify or replace them as necessary to make them Year 2000 compliant. All internally developed systems are in a Year 2000 ready state or are moving to an inquiry only status. Coventry has requested all vendors of currently installed software to disclose their products' current Year 2000 readiness and their plan for achieving Year 2000 readiness. All vendor software code except as noted is certified to be Year 2000 ready. All network and server hardware and software systems have been tested and repaired and are now Year 2000 ready.

Other major purchased applications that were non-compliant have been replaced by upgraded software from vendors or replaced by new purchased systems. Those applications include replacements for Coventry's general ledger and financial reporting applications, a data warehouse for financial and medical information decision support, and a proposal and rating system to support the underwriting and marketing processes. The general ledger, underwriting and data warehouse systems are complete and in production. Non-critical financial and human resource systems have also been completed.

Office Equipment

Coventry has requested its significant office equipment vendors to submit Year 2000 readiness statements about their products. Coventry has received the majority of such statements and is determining the extent to which nonconforming office equipment should be upgraded or replaced. Second notices to non-conforming or non-responding vendors have been issued.

Buildings and Facilities

All landlords and building management companies have been sent surveys with respect to each key operating and security system in company locations. Second surveys received have been evaluated to assess potential risks and no material risks have been found.

Business Partners and Customers

Coventry has communicated with its key business associates, such as financial institutions, third party vendors, provider and hospital networks, contractors and service providers to ensure that those parties have appropriate plans to remediate Year 2000 issues where their systems interface with Coventry's systems or otherwise impact its operations. Coventry is assessing the extent to which its operations are vulnerable should those organizations fail to remediate properly their computer systems. However, Coventry has little or no control over the efforts of those key business associates and other suppliers to become Year 2000 compliant. Certain of the services provided by those parties, particularly telecommunications providers, financial institutions and major hospitals and medical care

providers, could have a material adverse effect on Coventry's financial condition and results of operations if these services or operations are not Year 2000 compliant.

Risk Assessment and Contingency Planning

Coventry is reviewing its existing contingency plans for necessary modifications to address specific Year 2000 issues and Day 1 and Contingency Plans have been created. As part of its contingency planning Coventry has analyzed the most likely worst case scenario that could result from Year 2000-related failures. Coventry's best estimate of that scenario, based on current information, would involve a combination of major operational disruptions by its principal depository financial institutions, utility and telecommunication suppliers and its largest hospital and provider networks in its Pennsylvania and Missouri markets. Coventry's Year 2000 readiness program and contingency planning efforts are designed to prevent and/or mitigate the effects of such possible failures by evaluating technology risks and where prudent, implementing contingency plans to deal with these risks.

LEGISLATION AND REGULATION

Numerous proposals have been introduced in the United States Congress and various state legislatures relating to managed health care reform. Some proposals, if enacted, could, among other things, limit Coventry's ability to control medical costs, increase Coventry's exposure to liability to members for coverage denials or delays, require certain coverages and impose other requirements on managed care companies. Although the provisions of legislation that may be adopted at the state level cannot be accurately and completely predicted at this time, Coventry's management believes that the ultimate outcome of currently proposed legislation and state legislation enacted to date should not have a material adverse effect on its operations. On the federal level, Coventry expects that some form of managed health care reform may be enacted. At this time, it is unclear when such legislation might be enacted as well as the content of any new provisions. Coventry's management believes that the ultimate outcome of such federal legislation should not have a material adverse effect on its operations.

RISK FACTORS

Coventry's business is subject to numerous risks and uncertainties which may affect its results of operations in the future and may cause such future results of operations to differ materially and adversely from projections included in or underlying any forward-looking statements made by or on behalf of the Company. Some specific risks that could affect Coventry include the following:

IF COVENTRY IS UNABLE TO INCREASE ITS REVENUES, IT MAY NOT BE PROFITABLE AND THE VALUE OF YOUR INVESTMENT MAY DECLINE.

Increases in Coventry's revenues will be generally dependent upon its ability to increase premiums and membership. Premium rates for managed care plans generally have increased in recent months, but Coventry could experience unforeseen decreases or severely limited increases in future premium revenues. Factors that could affect Coventry's ability to maintain or increase revenues include (i) loss of membership to competitors, (ii) failure to attract new members, (iii) inability to increase premiums due to regulatory restrictions, (iv) loss of membership due to increased premium

rates, (v) withdrawal from unprofitable markets, and (vi) consumer preferences for lower priced health care options. Currently, the majority of Coventry's premium revenues come from commercial employer contracts. Large customers, whose contracts are generally renewable each year, represent a significant percentage of the membership of one or more of Coventry's health plans and twenty percent (20%) of Coventy's overall membership. The loss of one or more of these customers could result in a material adverse effect with respect to future revenues and Coventry's ability to cover costs. Also, 25.7% of Coventry's premium revenues year-to-date were derived from governmental programs, including Medicare and Medicaid. These premiums are generally fixed by the government and Coventry cannot adjust them based on its anticipated costs. Recent legislation has limited Medicare premium increases substantially as compared to increases permitted in prior years. As a result, the future costs of Coventry's government programs could exceed the future premium revenues received. Such losses of premium revenues and membership could adversely affect Coventry's financial position and profitability and cause a decline in the value of your investment in Coventry.

LIMITATIONS ON COVENTRY'S ABILITY TO PROJECT ACTUAL HEALTH CARE COSTS COULD RESULT IN COSTS BEING HIGHER THAN PREMIUM REVENUES, WHICH COULD ADVERSELY AFFECT YOUR INVESTMENT IN COVENTRY.

Coventry expects to use a substantial portion of its revenues to pay the costs of health care services and supplies delivered to its membership. The total cost incurred by Coventry is affected by the number of individual services rendered and the cost of each service. A large part of the Coventry's premium revenue is set on an annual basis before the actual services are delivered and the related costs are incurred. The number of individual services rendered and the cost of each service affect Coventry's total health care costs. While the Company attempts to base the premiums it charges, at least in part on its estimate of expected health care costs over the fixed premium period, other factors may limit its ability to fully base premiums on estimated costs and could cause actual health care costs to exceed estimated health care costs. These factors could include (i) the increased cost of individual health care services, (ii) the type and number of individual health care services delivered may exceed our expectations, (iii) the occurrence of catastrophes or epidemics, (iv) seasonality and trends, (v) general inflation, (vi) new mandated benefits or other regulatory changes that increase its costs, (vii) operational issues, (viii) insured population characteristics, (ix) competitive pressures and (x) other unforeseen occurrences. Coventry establishes reserves based on estimates of the costs incurred for covered services received by members but not yet reported. Coventry's reserves for incurred-but-not-reported liabilities may fall short of the actual amount of incurred-but-not-reported liabilities. This shortfall could significantly change Coventry's results of operations, affect profitability and adversely affect the value of your investment in Coventry. Historically, increases in the cost of health care services and higher than expected use of health care services have caused health care costs to rise faster than general inflation. While these increases have moderated recently, Coventry cannot insure that the cost of health care services or utilization will not again increase at a more rapid pace. Such increases could significantly change results of operations, affect profitability and adversely affect the value of your investment.

FAILURE TO OBTAIN COST-EFFECTIVE AGREEMENTS WITH A SUFFICIENT NUMBER OF PROVIDERS MAY RESULT IN HIGHER MEDICAL COSTS AND LOSS OF MEMBERSHIP, WHICH COULD CAUSE YOUR INVESTMENT IN COVENTRY TO DECLINE IN VALUE.

Prior to 1997, Coventry's St. Louis and Pennsylvania health plans offered members access to Coventry-owned and Coventry-staffed medical centers, as well as to networks of contracting providers. During 1997, Coventry's medical centers were sold to provider systems that have contracted to provide care to Coventry's members continuing to use these centers. Coventry expects that substantially all of its members will be served by providers contracting with the Company to provide the requisite medical care. Coventry's ability to contract successfully with a sufficiently large number of providers in a given geographic market will affect the relative attractiveness of Coventry's managed care products in those markets. The terms of those provider contracts also have a material impact on Coventry's medical costs and its ability to control these costs. In some of Coventry's markets, certain provider systems have a major presence. If these provider systems refuse to contract with Coventry, place Coventry at a competitive disadvantage or use their market position to negotiate contracts unfavorable to Coventry, product offerings or profitability in these markets could be adversely affected.

Among the medical cost control techniques Coventry has utilized are capitation agreements with providers pursuant to which the providers are paid a fixed dollar amount per member per month, with the provider obligated to provide all of a particular type of medical service required by the members, and global capitation agreements pursuant to which a single integrated hospital-physician provider system provides substantially all hospital and medical services to a large number of members for a fixed percentage of the premium we charge with respect to those members. While these systems may shift to the contracting provider system the risk that medical costs will exceed the amounts anticipated, Coventry will be exposed to the risks that the provider systems are financially unable or unwilling to fulfill their payment or medical care obligations under the capitation agreements or that members may prefer other providers in the market.

OPERATING RESULTS MAY NOT CONTINUE TO IMPROVE IN 1999 AND 2000, WHICH COULD NEGATIVELY AFFECT COVENTRY'S EARNINGS AND THE VALUE OF YOUR INVESTMENT IN COVENTRY MAY DECLINE.

Coventry's operating loss in 1998 was primarily attributable to charges related to the establishment of reserves related to the bankruptcy of AHERF, and to the relocation of its corporate headquarters. Although the Company has reached a settlement with respect to the AHERF bankruptcy and Coventry's operating results have improved, there can be no assurance that operating results will continue to improve. If Coventry experiences operating losses in 1999 and 2000, its earnings will be negatively affected and the value of your investment in Coventry may decline.

PRINCIPAL LIFE INSURANCE COMPANY AND ITS AFFILIATES MAY BE ABLE TO TAKE CONTROL OF COVENTRY, WHICH COULD ADVERSELY AFFECT THE VALUE OF YOUR SHARE OF COVENTRY COMMON STOCK

As a result of Coventry's acquisition of the Principal Health Care health plans, Principal Life owns approximately 40% of Coventry's common stock, on a fully diluted basis. Although Principal Life has agreed to a limitation on acquiring additional shares of Coventry's common stock, Principal Life has the right to acquire additional shares of Coventry's common stock in order to maintain ownership of up to 40% of Coventry's common stock, and has the right to elect at least one member of Coventry's Board of Directors for each 6% ownership of Coventry's common stock until April 2003. Prior to April 2003, Principal Life has agreed to vote its shares in favor of an acquisition required to be approved by shareholders that the Board has recommended and that has been approved by a majority of shareholders other than Principal Life. After April 2003 or after a third party acquires more voting securities than those held by Principal Life, there will be no restrictions on the acquisition of Coventry's common stock by Principal Life. As a result, Principal Life, in addition to having an effective veto over transactions involving a shareholder vote (assuming it were to continue to beneficially own 40% of Coventry's common stock), could acquire over 50% of Coventry's common stock and take actions requiring a shareholder vote without the need for any vote of Coventry's remaining shareholders. If Principal Life were to acquire over 50% of common stock, it would have actual control of Coventry and would be the majority shareholder and controlling vote in all actions involving a shareholder vote. As the majority shareholder, Principal Life could block transactions that were advantageous to the minority shareholders. There could be no assurance that the value of your investment in Coventry would not decline because future investors would not consider Coventry's common stock to be an attractive investment.

FORWARD-LOOKING STATEMENTS

The statements contained in this Form 10-Q that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are subject to risks and uncertainties including the "Risk Factors" described above and in Coventry's filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual operations and results to differ materially from those expected, anticipated, or projected. Among the factors that may materially affect Coventry's business are potential increases in medical costs, difficulties in increasing premiums due to competitive pressures, price restrictions under Medicaid and Medicare, imposition of regulatory restrictions, issues relating to marketing of products or accreditation or certification of the products by private or governmental bodies, difficulties in obtaining or maintaining favorable contracts with health care providers, credit risks on global capitation arrangements, financing costs and contingencies and litigation risk. Coventry undertakes no obligation to update the forward-looking information set forth herein as a result of new information or future events.

ITEM 3: Quantitative and Qualitative Disclosures of Market Risk

Coventry's only material risk in investments in financial instruments is in its debt securities portfolio. Coventry invests primarily in marketable state and municipal, U.S. Government and agencies, corporate, and mortgage-backed debt securities. Coventry does not invest in financial instruments of a hedging or derivative nature.

Coventry has established policies and procedures to manage its exposure to changes in the fair value of its investments. These policies include emphasizing credit quality, managing portfolio duration, maintaining or increasing investment income through high coupon rates, and actively managing profile and security mix depending upon market conditions. Coventry has classified all of its investments as available-for-sale. The fair value of the Company's investments in debt securities at September 30, 1999 was $364.2 million. Debt securities at September 30, 1999 mature according to their contractual terms, as follows (actual maturities may differ because of call or prepayment rights):

<TABLE>
<CAPTION>

	Amortized Cost	Fair Value
	(in thousands)	

<S> <C> <C>

Maturities:		
Within 1 year	$ 84,737	$ 84,742
1 to 5 years	102,054	101,733
6 to 10 years	67,203	65,407
Over 10 years	112,647	112,336
Other securities without stated maturity	--	--
Total short-term and long-term Securities	$366,641	$364,218

</TABLE>

Coventry believes its investment portfolio is diversified and expects no material loss to result from defaults. The mortgage-backed securities are insured by GNMA and FNMA.

Coventry's projections of hypothetical net losses in fair value of its interest rate sensitive instruments, should potential changes in interest rates occur, are presented below. While Coventry believes that the potential interest rate change is reasonably possible, actual results may differ.

Based on Coventry's debt securities portfolio and interest rates at September 30, 1999, a 100 basis point increase in interest rates would result in a decrease of $7.4 million, or 2.0%, in the fair value of the portfolio. Changes in interest rates may affect the fair value of the debt securities portfolio and may result in unrealized gains or losses. Gains or losses would be realized upon the sale of the investments.

PART II. OTHER INFORMATION

ITEM 1: Legal Proceedings

Settlement with AHERF related entities. The Company and certain affiliated hospitals of Allegheny Health, Education and Research Foundation (AHERF) have been involved in litigation to determine if the Company had the financial responsibility for medical services provided to the Company's members by the hospitals as a consequence of the bankruptcy filed by AHERF. As a result of the bankruptcy, AHERF failed to pay for medical services under its global capitation agreement with the Company covering approximately 250,000 Company members in the western Pennsylvania market. AHERF filed for bankruptcy protection on July 21, 1998, and shortly thereafter the Company filed a lawsuit against the hospitals seeking a declaratory judgment that the Company was not obligated to pay in excess of $21.5 million to the hospitals for medical services provided by them to the Company's members. The lawsuit also included additional claims for monetary damages. In response, the hospitals filed a counterclaim alleging that the Company's subsidiary, HealthAmerica Pennsylvania, Inc., was liable to the hospitals for payment of these medical services. As a result, the Company, which is ultimately responsible for these medical costs, notwithstanding the global capitation agreement, recorded a charge of $55.0 million in the second quarter of 1998 to establish a reserve for the medical costs incurred by its members under the AHERF global capitation agreement at the time of the bankruptcy filing. Although AHERF had not formally rejected the capitation agreement, the parties were no longer operating under its terms. On July 22, 1999, the Company reached a settlement with the hospitals, including Allegheny General Hospital (AGH), formerly owned by AHERF, and its new owner, Western Pennsylvania Health Care System (West Penn), whereby the hospitals agreed that the Company would not be liable for the payment of the medical services rendered by the hospitals to the Company's members prior to July 21, 1998, the date of AHERF's bankruptcy filing. Simultaneous with the settlement, the Company signed a new three-year provider contract with West Penn. The conditions to execute the settlement and the provider contract were finalized in October 1999 and, as a result, all liability issues surrounding AHERF's failure to fulfil its contractual obligations and Coventry's remaining obligations have been determined and all

AHERF-related litigation has been concluded. As of September 30, 1999, approximately $35.4 million of the $55.0 million reserve had been paid for medical claims. As a result of the settlement, Coventry expects to release $6.3 million of the reserve, which will be reflected as a gain in the fourth quarter and year-end 1999 results. The balance of the reserve represents Coventry's remaining obligations under the settlement and will be expended through August 2007.

Unity Arbitration. Group Health Plan, Inc. ("GHP"), a health plan subsidiary of the Company, entered into an agreement, effective January 1, 1998, with Unity Health Network, L.L.C. ("Unity") for Unity's provider network to provide health care services to GHP's members in the southern and western areas of St. Louis County, Missouri. The agreement contained risk sharing provisions. Disputes have arisen under the agreement, cross-claims have been made and the matter has been submitted to arbitration before the American Arbitration Association. GHP is demanding payment from Unity of $7.6 million and specific performance under the agreement. Unity is demanding payment from GHP of $14.5 million, specific performance of certain provisions of the agreement and suspension of its payment obligations. The Company believes that GHP has fulfilled all of its obligations under the agreement, that the amount demanded by GHP is properly due to GHP, and that GHP does not owe Unity the amounts claimed by Unity. The parties are currently involved in arbitration proceedings. The Company intends to vigorously pursue this matter, and expects to have a decision prior to December 31, 1999.

Other Legal Actions. In the normal course of business, the Company has been named as a defendant in various legal actions seeking payments for claims denied by the Company, medical malpractice, and other monetary

damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through September 30, 1999 may result in the assertion of additional claims. With respect to medical malpractice, the Company carries professional malpractice and general liability insurance for each of its operations on a claims made basis with varying deductibles for which the Company maintains reserves. In the opinion of management, the outcome of these actions should not have a material adverse effect on the financial position or results of operations of the Company.

Other managed care companies have been sued recently in class action lawsuits claiming violations of the federal racketeering act (RICO) and federal employee benefits law (ERISA), and generally claiming that managed care companies overcharge consumers and misrepresent that they deliver quality health care. Although it is possible that Coventry may be the target of a similar suit, Coventry believes there is no valid basis for such a suit.

The Company's industry is heavily regulated and the laws and rules governing the industry and interpretations of those laws and rules are subject to frequent change. Existing or future laws could have significant impact on the Company's operations.

ITEMS 2, 3, 4 and 5: Not Applicable

ITEM 6: Exhibits and Report on Form 8-K

(a) Exhibits required to be filed by Item 601 of Regulation S-K.

<TABLE>
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Exhibit No.	Description of Exhibit
<S>	<C>
10.1	Amendment to Employment Agreement dated July 12, 1999, between Thomas McDonough and Coventry Health Care, Inc.
10.2	Common Stock Purchase Warrant issued as January 4, 1999 to John W. Campbell.

11.1	Computation of Net Earnings Per Share
27	Financial Data Schedule (for SEC use only)

</TABLE>

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

COVENTRY HEALTH CARE, INC.
(Registrant)

Date: November 15, 1999 By: /s/ Allen F. Wise
Allen F. Wise
President, Chief Executive Officer and Director

Date: November 15, 1999 By: /s/ Dale B. Wolf
Dale B. Wolf
Executive Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement is entered into as of the 12th day of July, 1999, by and between Thomas McDonough ("Executive") and Coventry Health Care, Inc ("Employer"), a Delaware corporation with its principal place of business at 6705 Rockledge Drive, Suite 900, Bethesda, MD 20817.

WITNESSETH:

WHEREAS, Executive and Employer are parties to an Employment Agreement entered into as of the 13th day of March 1998 ("Employment Agreement") under which, among other things, Executive became employed as Employer's Executive Vice President commencing on April 1, 1998 (the "Date of Employment"); and

WHEREAS, the Employment Agreement contains a provision stating that Executive shall be eligible to participate in a three-year long term incentive compensation plan, the terms and conditions of which were to be mutually agreed upon by Employer and Executive following the Date of Employment and included as an amendment to the Employment Agreement; and

WHEREAS, Executive and Employer have reached agreement as to the terms and conditions of said long term incentive compensation plan;

NOW THEREFORE, in consideration of the premises hereof and of the mutual promises and agreements contained herein and in the Employment Agreement, the parties hereto, intending to be legally bound, hereby agree to the following Long Term Incentive Compensation Plan:

1. DEFINITIONS. For purposes of this Amendment to Employment Agreement:

A. The items defined in paragraph 25 of the Employment Agreement have the same meaning herein as in the Employment Agreement.

B. "Area of Performance" shall mean Risk Membership, General and Administrative Expenses PMPM, Earnings Per Share, or Medical Costs PMPM.

C. "Commercial Risk Medical Costs PMPM" shall mean the Employer's medical costs per member per month for all non-Medicare risk plans.

D. "Commercial Risk Membership" shall mean Employer's Risk Membership associated with all non-Medicare risk plans.

E. "Earnings Per Share" shall mean the Employer's diluted earnings per share, calculated according to the Employer's normal accounting principles, after the exclusion of any extraordinary items, to the extent such items are disclosed in the Employer's regular financial statements. With respect to the determination of the Base Line Performance for 1998 as set forth in paragraph 3, below, such extraordinary charges specifically include the charge taken due to the AHERF bankruptcy and the charge associated with the Principal merger.

F. "General & Administrative Expenses PMPM" shall mean the Employer's general and administrative expenses computed on a per member per month basis, excluding charges for depreciation and amortization of goodwill (and similar intangible write-offs) calculated according to the Employer's normal accounting principles. With respect to the determination of the Base Line Performance for 1998 as set forth in paragraph 3, below, all general and administrative expenses directly attributable to the health plans of PHC of Florida, Inc., and PHC of Illinois, Inc. shall be excluded.

G. "Medical Costs PMPM" shall mean the Employer's medical costs per member per month, calculated according to the Employer's normal accounting principles.

H. "Medicare Risk Medical Costs PMPM" shall mean the Employer's medical costs per member per month for Medicare risk plans.

I. "Medicare Risk Membership" shall mean Employer's Risk Membership associated with Medicare risk plans.

J. "PMPM" shall mean "per member per month."

K. "Risk Membership" shall mean the number of individuals enrolled in a health plan for which Employer bears the financial risk of medical costs. With respect to the determination of the Base Line Performance for 1998 as set forth in paragraph 3, below, it excludes all individuals enrolled in the health plans of PHC of Florida, Inc., and PHC of Illinois, Inc. With respect to the determination of performance for the years 1999, 2000 and 2001, "Risk Membership" shall exclude all individuals that were the subject of acquisitions or sales on or after January 1, 1999.

L. "Sub-Area of Performance" shall mean Medicare Risk Medical Costs PMPM or Commercial Risk Medical Costs PMPM.

2. AREAS OF PERFORMANCE. In addition to the compensation and benefits set forth in the Employment Agreement, Executive may earn long term incentive compensation based upon the Employer's actual performance in the following four Areas of Performance: (1) Risk Membership; (2) General and Administrative Expenses PMPM (3) Earnings Per Share; and (4) Medical Costs PMPM. The category of Medical Costs PMPM shall be further divided into two Sub-Areas of Performance: Medicare Risk Medical Costs PMPM and Commercial Risk Medical Costs PMPM. In determining Executive's entitlement to long term incentive compensation hereunder, each Area and Sub-Area of Performance will be assigned the following

weightings:

<TABLE>
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AREA OF PERFORMANCE	WEIGHTING
Risk Membership	20 percent
General & Administrative PMPM	30 percent
Earnings Per Share	30 percent
Medical Costs PMPM	20 percent
Medicare Risk Medical Costs PMPM	Medicare Risk Membership divided by total Risk Membership, as of December 31 of each year
Commercial Risk Medical Costs PMPM	Commercial Risk Membership divided by total Risk Membership, as of December 31 of each year

</TABLE>

3. BASE LINE PERFORMANCE. The Employer's performance as of December 31, 1998 in each of the Areas and Sub-Areas of Performance shall constitute the Base Line Performance for measuring the rate of change in subsequent years. It is agreed that the Base Line Performance as of December 31, 1998 in each of the Areas and Sub-Areas of Performance was as follows:

<TABLE>
<CAPTION>

AREA/SUB-AREA OF PERFORMANCE	BASE LINE 12/31/98
Risk Membership	1,167,041
General & Administrative PMPM	$ 18.72
Earnings Per Share	$ 0.49
Medical Costs PMPM	
Medicare Risk Medical Costs PMPM	$403.79
Commercial Risk Medical Costs PMPM	$108.46

</TABLE>

4. PERFORMANCE TARGETS. The parties have agreed to certain targeted percentage rates of change in the Areas of Performance for the years 1999, 2000 and 2001, to be determined as at December 31, 1999, December 31, 2000 and December 31, 2001, respectively.

For 1999, the targeted percentage rates of change, based on the Base Line Performance, are as follows:

AREA/SUB-AREA OF PERFORMANCE	PERFORMANCE TARGETS (1999)
Risk Membership	+ 5 percent
General & Administrative PMPM	- 6 percent
Earnings Per Share	+ 60 percent
Medical Costs PMPM	
Medicare Risk Medical Costs PMPM	No more than + 5 percent
Commercial Risk Medical Costs PMPM	No more than + 3 percent

For 2000, the targeted percentage rates of change are as follows:

AREA/SUB-AREA OF PERFORMANCE	PERFORMANCE TARGETS (2000)
Risk Membership	+ 10 percent
General & Administrative PMPM	- 6 percent
Earnings Per Share	+ 25 percent
Medical Costs PMPM	
Medicare Risk Medical Costs PMPM	No more than + 6 percent
Commercial Risk Medical Costs PMPM	No more than + 4 percent

For 2001, the targeted percentage rates of change are as follows:

AREA/SUB-AREA OF PERFORMANCE	PERFORMANCE TARGETS (2001)

<S> <C>

Risk Membership	+ 10 percent
General & Administrative PMPM	- 5 percent
Earnings Per Share	+ 20 percent
Medical Costs PMPM	
Medicare Risk Medical Costs PMPM	No more than + 6 percent

</TABLE>

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Commercial Risk Medical Costs PMPM	No more than + 4 percent

</TABLE>

For purposes of computing performance in the year 2000, the targeted percentage rates of change shall be applied to a base equal to the targeted performance levels for 1999. For purposes of computing performance in the year 2001, the targeted percentage rates of change shall be applied to a base equal to the targeted performance levels for 2000.

5. CALCULATION OF TOTAL PERCENTAGE OF TARGET ACHIEVED. For each of the calendar years 1999, 2000 and 2001, the Total Percentage of Target Achieved shall be calculated as follows:

A. In each Area of Performance (except Medical Costs PMPM), the actual level of performance for the year shall be divided by the targeted level of performance for that year to yield the Percentage of Target Achieved for that Area of Performance.

B. In the Medical Costs PMPM Area of Performance, the actual level of performance for the year in each Sub-Area of Performance shall first be divided by the targeted level of performance for that Sub-Area. Since the targets for these Sub-Areas are based on limiting the growth in medical costs, the percentage so obtained will then be adjusted as follows (unless it equals One Hundred Percent (100%)) to yield the Percentage of Target for that Sub-Area:

(1) If the percentage so obtained is over One Hundred Percent (100%), the percentage amount over One Hundred Percent (100%) will be subtracted from One Hundred Percent (100%).

(2) If the percentage so obtained is less then One Hundred Percent (100%), the percentage amount less than One Hundred Percent (100%) will be added to One Hundred Percent (100%).

The Percentage of Target for each Sub-Area so obtained shall then be multiplied by the weight assigned to that Sub-Area to yield the Weighted Percentage achieved for that Sub-Area. The Weighted Percentages achieved for the two Sub-Areas shall then be added to obtain the overall Percentage of Target Achieved for the Medical Costs PPM Area of Performance.

C. Any Percentage of Target Achieved for an Area of Performance which is less than Zero Percent (0%) shall be considered to be Zero Percent (0%). Any Percentage of Target Achieved for an Area of Performance that is greater than One Hundred Fifty Percent (150%) of the target shall be considered to be One Hundred Fifty Percent (150%).

D. The percentage weight assigned to each Area of Performance shall then be multiplied by the Percentage of Target Achieved for that Area of

Performance to yield the Weighted Percentage of Target Achieved for that Area of Performance for that year.

E. The Weighted Percentage of Target achieved for each Area of Performance shall then be added to yield the Total Percentage of Target Achieved for that year in all Areas of Performance.

6. CALCULATION OF LONG TERM INCENTIVE COMPENSATION. For each of the years 1999, 2000 and 2001, Executive shall be eligible to earn from $250,000 up to $1,000,000 in long term incentive compensation, depending on the Total Percentage of Target Achieved for that year in all Areas of Performance, as follows:

<TABLE>
<CAPTION>

TOTAL PERCENTAGE OF TARGET ACHIEVED	AMOUNT
<S>	<C>
At least 80 percent but less than 81 percent	$ 250,000
At least 81 percent but less than 82 percent	$ 275,000
At least 82 percent but less than 83 percent	$ 300,000
At least 83 percent but less than 84 percent	$ 325,000
At least 84 percent but less than 85 percent	$ 350,000
At least 85 percent but less than 86 percent	$ 380,000
At least 86 percent but less than 87 percent	$ 410,000

At least 87 percent but less than 88 percent	$ 440,000
At least 88 percent but less than 89 percent	$ 470,000
At least 89 percent but less than 90 percent	$ 500,000
At least 90 percent but less than 91 percent	$ 550,000
At least 91 percent but less than 92 percent	$ 600,000
At least 92 percent but less than 93 percent	$ 650,000
At least 93 percent but less than 94 percent	$ 700,000
At least 94 percent but less than 95 percent	$ 750,000
At least 95 percent but less than 96 percent	$ 800,000
At least 96 percent but less than 97 percent	$ 850,000

</TABLE>

<TABLE>

<S>	<C>
At least 97 percent but less than 98 percent	$ 900,000
At least 98 percent but less than 99 percent	$ 950,000
At least 99 percent through 100 percent	$1,000,000

</TABLE>

Executive will not earn any long term incentive compensation if the Total Percentage of Target Achieved is less than 80 percent. There will be no increase in the amount of long term incentive compensation payable hereunder for a Total Percentage of Target Achieved that is greater than 100 percent. REGARDLESS OF THE TOTAL PERCENTAGE OF TARGET ACHIEVED, EXECUTIVE WILL NOT BE ELIGIBLE TO EARN ANY LONG TERM INCENTIVE COMPENSATION IN ANY YEAR UNLESS THE EMPLOYER ACHIEVES AT LEAST 80% OF THE TARGETED PERCENTAGE RATE OF INCREASE IN THE EARNINGS PER SHARE AREA OF PERFORMANCE FOR THAT YEAR. Long term incentive compensation for which Executive is eligible hereunder shall be considered earned on January 1, 2000 (for the 1999 performance year), on January 1, 2001 (for the 2000 performance year) and on January 1, 2002 (for the 2001 performance year), respectively.

7. PAYMENT OF EARNED LONG TERM INCENTIVE COMPENSATION. Except as otherwise provided herein, any long term incentive compensation earned will be paid on the first business day in April of the year following the calendar year on which it is based, i.e. incentive compensation earned for the year 1999 will be paid on April 3, 2000, incentive compensation earned for the year 2000 will be paid on April 2, 2001 and incentive compensation earned for the year 2001 will be paid on April 1, 2002. Payment shall be made in cash, less required withholdings.

8. FORFEITURE OF EARNED LONG TERM INCENTIVE COMPENSATION. If the employment of Executive with Employer is terminated prior to the date of payment (a) by Employer for Good Cause, as defined in Section 25 of the Employment Agreement, or (b) by Executive for any reason other than Good Reason, as defined in Section 25 of the Employment Agreement, then Executive shall forfeit any right to payment of such earned long term incentive compensation.

9. ELIGIBILITY TO EARN LONG TERM INCENTIVE COMPENSATION AFTER TERMINATION. If, prior to the date on which any long term incentive compensation is earned pursuant to paragraph 6 above, the employment of Executive is terminated (a) by Employer for any reason other than Good Cause, as defined in Section 25 of the Employment Agreement, or (b) by Executive for Good Reason, as defined in Section 25 of the Employment Agreement, then Executive shall remain eligible to earn and be paid a portion of the long term incentive compensation for the performance year in which such termination occurs, based on the performance targets set forth herein, pro-rata based on the percent of the performance year for which he was employed.

10. CHANGE IN CONTROL. In the event that there is a change in control of Employer, as defined in paragraph 25(c) of the Employment Agreement, Executive shall be paid in full for any earned long term incentive compensation, and shall be paid the following percentage of the maximum amount of any long term incentive compensation not yet earned:

CHANGE OF CONTROL YEAR	PERCENTAGE
1999	50%
2000	75%
2001	100%

All such payments will be made at the time of closing of the transaction giving rise to the change in control.

11. EXECUTIVE ASSIGNMENT. No interest of Executive or his spouse or any other beneficiary under this Amendment to Employment Agreement, or any right to receive any payment or distribution hereunder, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind, nor may such interest or right to receive a payment or distribution be taken, voluntarily or involuntarily, for the satisfaction of the obligations or debts of, or other claims against, Executive or his spouse or other beneficiary, including claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings.

12. DEATH. If Executive dies during the term of this Agreement all long term incentive compensation amounts earned pursuant to paragraph 7, above, prior to his death shall be paid to his surviving spouse. On the death of the survivor of Executive and his spouse, no further long term incentive compensation amounts will be paid.

13. BENEFITS UNFUNDED. All rights of Executive and his spouse or other beneficiary under this Amendment to Employment Agreement shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of Employer for payment of any amounts due hereunder. Neither Executive nor his spouse or other beneficiary shall have any interest in or rights against any specific assets of Employer, and Executive and his spouse or other beneficiary shall have only the rights of a general unsecured creditor of Employer.

14. NOTICES. Any notice required or permitted to be given under this Amendment to Employment Agreement shall be sufficient if in writing and sent by registered or certified mail to his residence in the case of Executive, or to its principal office in the case of the Employer and the date of receipt shall be deemed the date which such notice has been provided.

15. WAIVER OF BREACH. The waiver by either party of any provision of this Amendment to Employment Agreement shall not operate or be construed as a waiver of any subsequent breach by the other party.

16. ASSIGNMENT. The rights and obligations of the Employer under this Amendment to Employment Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Employer, subject to the provisions of paragraph 10, above. The Executive acknowledges that the services to be rendered by him are unique and personal, and Executive may not assign any of his rights or delegate any of his duties or obligations under this Amendment to Employment Agreement.

17. ENTIRE AGREEMENT. This instrument contains the entire agreement of the parties and supersedes all other prior agreements, employment contracts and understandings, both written and oral, express or implied with respect to the subject matter of this Amendment to Employment Agreement and may not be changed orally but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

18. APPLICABLE LAW. This Amendment to Employment Agreement shall be governed by the laws of the State of Maryland, without giving effect to the principles of conflicts of law thereof.

19. HEADINGS. The sections, subjects and headings of this Amendment to Employment Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

20. COUNTERPARTS. This Amendment to Employment Agreement may be executed in counterparts, each of which shall be deemed an original.

21. SEVERABILITY. In the event any provision of this Amendment to Employment Agreement is held illegal or invalid, the remaining provisions of this Amendment to Employment Agreement shall not be affected thereby.

IN WITNESS WHEREOF, the parties have executed this Amendment to Employment Agreement on the day and year first written above.

/s/ Thomas McDonough

Thomas McDonough

COVENTRY HEALTH CARE INC

By: /s/ Allen F. Wise

Allen F. Wise
President and Chief Executive Officer

EXHIBIT 10.2

THIS WARRANT AND THE SHARES UNDERLYING THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER ANY STATE SECURITIES OR BLUE SKY LAWS. THIS WARRANT AND THE SHARES UNDERLYING THIS WARRANT MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES OR BLUE SKY LAWS OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF. IN ADDITION, THIS WARRANT MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF EXCEPT UPON THE CONDITIONS SPECIFIED IN THIS WARRANT, AND NO SALE, ASSIGNMENT, TRANSFER, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THIS WARRANT SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL SUCH CONDITIONS SHALL HAVE BEEN COMPLIED WITH.

NO. W00052

Right to Purchase 50,000
Shares of Common Stock

COMMON STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, subject to the terms and conditions set forth herein, JOHN W. CAMPBELL ("Holder") is entitled to purchase from COVENTRY HEALTH CARE, INC., a Delaware corporation (the "Company"), at any time and from time to time, in whole or in part, during the period specified herein, up to Fifty Thousand (50,000) fully paid and nonassessable shares of the Company's Common Stock, par value $.01 per share (the "Warrant Shares"), at an exercise price of $7.625 per share (the "Exercise Price"), which is the market price of the Company's Common Stock on December 21, 1998, the date the Company executed an agreement for the provision of legal services with Epstein Becker & Green, P.C. ("EBG") and agreed to the issuance of this Warrant. The Warrant Shares and the Exercise Price are subject to adjustment as provided in Section 7 hereof.

This Warrant is subject to the following terms, provisions, and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Warrant Shares. Subject to the provisions hereof, including Section 2 hereof, this Warrant may be exercised by the Holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed Exercise Agreement in the form attached hereto, to the Company during normal business hours on any business day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), and upon payment to the Company in cash or by certified or official bank check of the Exercise Price for the Warrant Shares specified in said Exercise Agreement. In addition, to the extent and when from time to time the Company generally makes available to its senior management the ability to do a cashless exercise of options issued under the Company's Amended and Restated 1998 Stock

Incentive Plan, the Holder shall be entitled to do a cashless exercise of this Warrant on substantially similar terms. The Warrant Shares so purchased shall be deemed to be issued to the Holder or said Holder's designee as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered for exercise, the completed Exercise Agreement delivered, and payment made for the Warrant Shares being purchased as aforesaid. Certificates for the Warrant Shares so purchased,

representing the aggregate number of shares specified in said Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding seven (7) business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the Holder hereof and shall be registered in the name of said Holder or such other name as shall be designated by said Holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of said certificates, deliver to the holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised.

2. Period of Exercise. This Warrant is exercisable as follows: 16,667 Warrant Shares become exercisable on December 31, 1999; 16,667 Warrant Shares become exercisable on December 31, 2000; and 16,666 Warrant Shares become exercisable on December 31, 2001. This Warrant terminates at the close of business on January 4, 2009, subject to earlier termination as provided herein, at which time this Warrant shall expire and be of no further force and effect.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Warrant Shares to be Fully Paid. All Warrant Shares will, upon issuance, be validly issued, fully paid, nonassessable and free from all taxes, liens, and charges.

(b) Reservation of Shares. During the period within which this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of issuance upon exercise of this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of this Warrant.

(c) Successors and Assigns. This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

(d) Registration of Warrant Shares. The Company will use its best efforts to register the Warrant Shares with the Securities and Exchange Commission on or before December 31, 1999.

4. Non-Employee Compensation. The value realized by the Holder on the exercise of the Warrant is considered to be non-employee compensation and the

Company will issue a Form 1099 to the Holder reporting any such compensation attributed to or received by the Holder.

5. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

6. Transfer, Exchange, and Replacement of Warrants and Warrant Shares.

(a) Restriction on Transfer. Anything in this Warrant to the contrary notwithstanding, this Warrant (and any Warrant for which this Warrant may

be exchanged or replaced) may not be transferred or assigned, except (i) by the Holder to a member of his Immediate Family (defined below) or a trust for the benefit of the Holder or a member of his Immediate Family, or (ii) by will or pursuant to the laws of descent and distribution; provided, however, that any transfer or assignment shall be subject to the conditions set forth in Section 6(f) hereof. Until due presentment for registration of transfer on the books of the Company, the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary. For purposes of this paragraph, "Immediate Family" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

(b) Warrant Exchangeable for Different Denominations. Subject to Section 6(a) hereof, this Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Section 6(e) hereof, for new Warrants of like tenor representing in the aggregate the right to purchase the number of Warrant Shares which may be purchased hereunder, each of such new Warrants to represent the right to purchase such number of Warrant Shares as shall be designated by said holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 6, this Warrant shall be promptly canceled by the Company.

(e) Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Investment Representation. By acceptance of this Warrant, the holder hereof hereby represents that: (i) such holder understands that neither this Warrant nor the Warrant Shares issuable upon exercise hereof have been registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws and, in addition to the other restrictions on transfer set forth in this Warrant, neither this Warrant nor the Warrant Shares issuable upon exercise hereof may be transferred in the absence of an effective registration statement under the Securities Act and any applicable state securities laws or an exemption from the registration requirements thereof, and (ii) such holder is acquiring this Warrant for investment purposes only, and not with a view to the resale or distribution of this Warrant or the Warrant Shares. Following the exercise of this Warrant, the holder shall not

transfer the Warrant Shares except pursuant to an effective registration statement under the Securities Act and any applicable state securities laws or blue sky laws unless (x) the holder of this Warrant furnishes to the Company a written opinion of counsel, which opinion and counsel are acceptable to the Company, to the effect that such exercise, transfer, or exchange may be made without registration under the Securities Act and under applicable state securities or blue sky laws and (y) the holder or transferee executes and delivers to the Company an investment letter in form and substance acceptable to the Company.

7. Adjustments Upon Changes in Common Stock. In the event the Company shall effect a split of the Common Stock or dividend payable in Common Stock, or in the event the outstanding Common Stock shall be combined into a smaller number of shares, the maximum number of Warrant Shares for which this Warrant may be exercised shall be decreased or increased proportionately and the Exercise Price shall be decreased or increased proportionately so that the aggregate Exercise Price for all of the Warrant Shares shall remain the same as immediately prior to such split, dividend or combination.

In the event of a reclassification of the Common Stock not covered by the foregoing, or in the event of a liquidation or reorganization (including a merger, consolidation, spin-off or sale of assets) of the Company or a parent or subsidiary of the Company, the Board of Directors of the Company (the "Board") shall make such adjustments, if any, as it may deem appropriate in its sole discretion in the number, Exercise Price and kind of shares covered by the unexercised portions of this Warrant. The provisions of this Section shall only be applicable if, and only to the extent that, the application thereof does not conflict with a valid governmental statute, regulation or rule.

8. Effects of Change In Control

(a) Impact of Event. In the event of: (1) a "Change in Control" as defined in Section8(b); or (2) a "Potential Change in Control" as defined in Section 8(c), but only if and to the extent so determined by the Board of Directors of the Company (the "Board") after grant (subject to any right of approval expressly reserved by the Board at the time of such determination),

(i) This Warrant to the extent not previously exercisable and vested shall become fully exercisable and vested.

(ii) The value of this Warrant to the extent vested and exercisable, shall, unless otherwise determined by the Board in its sole discretion prior to any Change in Control, be cashed out on the basis of the "Change in Control Price" as defined in Section 8(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred or such other date as the Board may determine prior to the Change in Control.

(b) Definition of Change in Control. For purposes of Section 8(a), a "Change in Control" means the happening of any of the following:

(i) any person or entity, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act, other than the Company or a wholly-owned subsidiary thereof or any employee benefit plan of the Company or any of its

Subsidiaries, becomes the beneficial owner of the Company's securities having 35% or more of the combined voting power of the then outstanding securities of the Company that may be cast for the election of directors of the Company (other than as a result of an issuance of securities initiated by the Company in the ordinary course of business or other than transactions which are approved by a majority of the Board); or

(ii) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, less than a majority of the combined voting power of the then outstanding securities of the Company or any successor corporation or entity entitled to vote generally in the election of the directors of the Company or such other corporation or entity after such transactions are held in the aggregate by the holders of the Company's securities entitled to vote generally in the election of directors of the Company immediately prior to such transaction; or

(iii) during any period of two consecutive years, individuals who at the beginning of any such period constituted the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's shareholders, of each director of the Company first elected during such period was approved by a vote of at least two-thirds of the directors of the Company then still in office who were directors of the Company at the beginning of any such period.

(c) Definition of Potential Change in Control. For purposes of Section 8(a), a "Potential Change in Control" means the happening of any one of the following:

(i) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 8(b); or

(ii) The acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a subsidiary or any Company employee benefit plan (including any trustee of such plan acting as such trustee)) of securities of the Company representing 5% or more of the combined voting power of the Company's outstanding securities and the adoption by the Committee of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of the Company's Amended and Restated 1998 Stock Incentive Plan.

(d) Change in Control Price. For purposes of this Section 8, "Change in Control Price" means the highest price per share paid in any transaction

reported on the Nasdaq National Market or such other exchange or market as is the principal trading market for the Common Stock, or paid or offered in any bona fide transaction related to a Potential or actual Change in Control of the Company at any time during the 60-day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event), in each case as determined by the Board or, where applicable, the date on which a cash out occurs under Section 8(a)(ii).

9. Termination of Warrant. In the event that (i) the contractual relationship between EBG and the Company or any successor of the Company is terminated other than in connection with a Change In Control or Potential Change in Control under Section 8, or (ii) the Holder ceases to work for EBG or (iii) the Holder no longer renders services to the Company as EBG's partner in charge of the Company's legal affairs, the Holder may exercise this Warrant, to the extent he was entitled to do so at the effective date of the occurrence of any of the foregoing events, at any time within ninety (90) days after the occurrence of any such event but in no event after the expiration of this Warrant (i.e., the expiration of ten years from the date of grant or such earlier expiration date as may be provided in this Warrant); provided, however, if the occurrence of any of the foregoing events was due to "Cause" attributable to the actions of Holder, this Warrant shall immediately lapse and expire. For purposes of this Warrant, "Cause" means (i) a felony conviction or the failure to contest prosecution for a felony, or (ii) willful misconduct or dishonesty, which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate.

10. Disability or Retirement. If Holder's services rendered to the Company on behalf of EBG are terminated by reason of Holder's disability or early or normal retirement from EBG, in accordance with EBG's policies and procedures, Holder may exercise that portion of this Warrant which was exercisable by him at the date of such termination at any time within three (3) years of the date of such termination; provided, however, that such exercise occurs within ten (10) years of the date this Warrant was granted to Holder or such earlier expiration date as may be provided in this Warrant.

11. Death. If Holder dies during the term of the contractual relationship between EBG and the Company, and Holder is rendering services to the Company as EBG's partner in charge of the Company's legal affairs, that portion of this Warrant which was exercisable by Holder at the date of his death may be exercised by the legal representative of Holder's estate or the legatee

or legatees under Holder's will for a period of twelve (12) months from the date of Holder's death, but in no event after ten (10) years from the date this Warrant was granted to Holder or such earlier expiration date as may be provided in this Warrant.

12. Notices. All notices, requests, and other communications required or permitted to be given or delivered hereunder to the holder of this Warrant shall be in writing, and shall be personally delivered, or shall be sent by certified or registered mail, postage prepaid and addressed to such holder at the address shown for such holder on the books of the Company, or at such other address as shall have been furnished to the Company by notice from such holder. All notices, requests, and other communications required or permitted to be given or delivered hereunder to the Company shall be in writing, and shall be personally delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, to the office of the Company at 6705 Rockledge Drive, Suite 900, Bethesda, MD 20817, Attention: President (or Secretary), or at such other address as shall have been furnished to the holder of this Warrant by notice from the Company. Any such notice, request, or other communication may be sent by telegram, telex, or telecopy, but shall in such case be subsequently confirmed by a writing personally delivered or sent by certified or registered mail as provided above. All

notices, requests, and other communications shall be deemed to have been given either at the time of the delivery thereof to (or the receipt by, in the case of a telegram, telex or telecopy) the person entitled to receive such notice at the address of such person for purposes of this Section 12, or, if mailed, at the completion of the third (3rd) full day following the time of such mailing thereof to such address, as the case may be.

13. Governing Law. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

14. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may not be changed, waived, discharged, or terminated, except by an instrument in writing signed by the party (or any predecessor interest thereof) against which enforcement of the same is sought.

(b) Descriptive Headings. The descriptive headings of the several paragraphs of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer under its corporate seal, attested by its duly authorized officer, as of the 4th day of January, 1999.

COVENTRY HEALTH CARE, INC.

By: /s/ Allen F. Wise

Allen F. Wise
President and Chief Executive Officer

[CORPORATE SEAL]

Attest:
/s/ Shirley R. Smith

Shirley R. Smith
Secretary

EXERCISE AGREEMENT

Dated: _____________, _______

To: _____________________

The undersigned, pursuant to the provisions set forth in the within Warrant No. W00052, hereby agrees to purchase _________ shares of Common Stock of Coventry Health Care, Inc. covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant in cash or by certified or official bank check in the amount of $_______________. Please issue a certificate or certificates for such shares of Common Stock in the name of (and pay cash for any fractional share(s)) to the following:

Name:

SS No./ Tax ID No.:

Address:

Signature*: ---------------------------------

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* The above signature should correspond exactly with the name on the face of the within Warrant.

If the number of Warrant Shares exercised herein shall not be all of the shares purchasable under the within Warrant, a new Warrant is to be issued in the name of the above signatory covering the balance of the Warrant Shares purchasable under the within Warrant, less any fraction of a share paid to the holder in cash.

Exhibit 11.1

Coventry Health Care, Inc.
Computation of Net Earnings Per Share
(in thousands, except for per share amounts)

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	Quarter ended September 30, 1999		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
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Basic EPS	$10,970	59,102	$0.19
Effect of Dilutive Securities			
Options and warrants		517	
Convertible preferred stocks		1,717	
Convertible notes		2,993	
Diluted EPS	$10,970	64,329	$0.17

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	Quarter ended September 30, 1998		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
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Basic EPS	$5,068	58,785	$0.09
Effect of Dilutive Securities:			
Options and warrants		114	
Diluted EPS	$5,068	58,899	$0.09

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	Nine months ended September 30, 1999		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
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Basic EPS	$28,420	58,972	$0.48
Effect of Dilutive Securities			
Options and warrants		663	
Convertible preferred stocks		605	
Convertible notes		4,035	
Interest on convertible notes	848		
Diluted EPS	$29,268	64,275	$0.46

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<S>	Nine months ended September 30, 1998		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
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Basic EPS	($17,981)	50,242	($0.36)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF COVENTRY HEALTH CARE, INC. FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRELY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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