

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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COVENTRY HEALTH CARE INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2003

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 1-16477



COVENTRY HEALTH CARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-2073000
(I.R.S. Employer
Identification Number)

6705 Rockledge Drive, Suite 900, Bethesda, Maryland 20817
(Address of principal executive offices) (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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Securities Exchange Act of 1934 Rule 12b-2). Yes No

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

Class
Common Stock \$.01 Par Value

Outstanding at July 31, 2003
59,875,852

COVENTRY HEALTH CARE, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION**ITEM 1: Financial Statements****COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands, except share data)**

	June 30, 2003	December 31, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 230,105	\$ 186,768
Short-term investments	74,645	57,895
Accounts receivable, net	79,551	71,044
Other receivables, net	55,464	63,943
Deferred income taxes	42,332	36,861
Other current assets	10,989	7,764
Total current assets	493,086	424,275
Long-term investments	971,746	874,457
Property and equipment, net	31,730	34,045
Goodwill	257,619	243,746
Other intangible assets, net	25,237	25,687
Other long-term assets	43,438	41,230
Total assets	\$1,822,856	\$1,643,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liabilities	\$527,115	\$497,318
Other medical liabilities	61,211	61,281
Accounts payable and other accrued liabilities	200,303	178,577
Deferred revenue	49,178	63,536
Total current liabilities	837,807	800,712
Senior notes	175,000	175,000
Other long-term liabilities	27,471	21,691
Total liabilities	1,040,278	997,403
Stockholders' equity:		
Common stock, \$.01 par value; 200,000,000 shares authorized; 69,362,634 shares issued and 59,906,065 outstanding in 2003; and 68,484,702 shares issued and 58,788,297 outstanding in 2002	694	685
Treasury stock, at cost, 9,456,569 and 9,696,405 shares in 2003 and 2002, respectively	(202,046)	(205,644)

Additional paid-in capital	544,718	530,322
Accumulated other comprehensive income	27,771	22,167
Retained earnings	411,441	298,507
	<hr/>	<hr/>
Total stockholders' equity	782,578	646,037
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$1,822,856	\$1,643,440
	<hr/>	<hr/>

See accompanying notes to the condensed consolidated financial statements.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Operating revenues:				
Managed care premiums	\$1,074,983	\$ 871,927	\$2,118,290	\$ 1,703,156
Management services	21,448	18,186	43,558	35,507
Total operating revenues	<u>1,096,431</u>	<u>890,113</u>	<u>2,161,848</u>	<u>1,738,663</u>
Operating expenses:				
Medical costs	870,005	725,250	1,731,275	1,428,020
Selling, general and administrative	130,634	108,681	260,719	213,339
Depreciation and amortization	4,537	4,745	9,145	9,374
Total operating expenses	<u>1,005,176</u>	<u>838,676</u>	<u>2,001,139</u>	<u>1,650,733</u>
Operating earnings	91,255	51,437	160,709	87,930
Senior notes interest expenses, net	3,667	3,667	7,344	6,112
Other income, net	11,516	8,976	21,904	19,019
Earnings before income taxes	99,104	56,746	175,269	100,837
Provision for income taxes	35,677	20,145	62,335	35,797
Net earnings	<u>\$ 63,427</u>	<u>\$ 36,601</u>	<u>\$ 112,934</u>	<u>\$65,040</u>
Net earnings per share:				
Basic earnings per share	<u>\$ 1.08</u>	<u>\$ 0.62</u>	<u>\$ 1.94</u>	<u>\$ 1.09</u>
Diluted earnings per share	<u>\$ 1.05</u>	<u>\$ 0.60</u>	<u>\$ 1.88</u>	<u>\$ 1.05</u>
Weighted average common shares outstanding:				
Basic	58,598	58,900	58,289	59,779
Effect of diluted options and warrants	1,809	2,100	1,739	2,345
Diluted	<u>60,407</u>	<u>61,000</u>	<u>60,028</u>	<u>62,124</u>

See accompanying notes to the condensed consolidated financial statements.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2003	2002
Net cash provided by operating activities	\$ 144,173	\$ 65,471
Cash flows from investing activities:		
Capital expenditures, net	(5,160)	(6,159)
Sales and maturities of investments	270,318	176,589
Purchases of investments	(354,883)	(339,167)
Payments for acquisitions, net of cash acquired	(16,045)	(9,287)
Net cash used in investing activities	(105,770)	(178,024)
Cash flows from financing activities:		
Proceeds from issuance of stock	8,008	7,611
Payments for repurchase of stock	(3,074)	(181,350)
Proceeds from issuance of senior notes, net	--	170,500
Net cash provided by (used in) financing activities	4,934	(3,239)
Net increase (decrease) in cash and cash equivalents	43,337	(115,792)
Cash and cash equivalents at beginning of period	186,768	312,364
Cash and cash equivalents at end of period	\$ 230,105	\$ 196,572
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 7,109	\$ --
Income taxes paid, net	\$ 36,086	\$ 18,471
Non-cash item - Restricted stock	\$ 13,390	\$ 14,417
Non-cash item - Tax benefit of stock options exercised	\$ 9,047	\$ 11,408

See accompanying notes to the condensed consolidated financial statements.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A. 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 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 accounting principles generally accepted in the United States have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission. 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, 2002, filed with the Securities and Exchange Commission on March 24, 2003.

B. SIGNIFICANT ACCOUNTING POLICIES

The Company accounts for stock-based compensation to employees under Accounting Principles Board (“APB”) Opinion No. 25 - “Accounting for Stock Issued to Employees.” Until the accounting rules change, the Company does not currently expect to transition to the fair value method of accounting for stock-based compensation. Had compensation cost been determined consistent with Statement of Financial Accounting Standards (“SFAS”) No. 123 - “Accounting for Stock-Based Compensation,” the Company’s net earnings and earnings per share (“EPS”) would have been reduced to the following pro-forma amounts (in thousands, except per share data):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net earnings, as reported	\$ 63,427	\$ 36,601	\$112,934	\$ 65,040
 Add: Stock-based employee compensation expense included in reported net earnings, net of tax	 1,400	 914	 2,615	 1,349
 Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax	 (2,320)	 (1,841)	 (4,389)	 (3,016)
Net earnings, pro-forma	\$ 62,507	\$ 35,674	\$111,160	\$ 63,373
 EPS, basic - as reported	\$ 1.08	\$ 0.62	\$ 1.94	\$ 1.09
EPS, basic - pro-forma	\$ 1.07	\$ 0.61	\$ 1.91	\$ 1.06
 EPS, diluted - as reported	\$ 1.05	\$ 0.60	\$ 1.88	\$ 1.05
EPS, diluted - pro-forma	\$ 1.03	\$ 0.58	\$ 1.85	\$ 1.02

C. ACQUISITIONS

Effective February 1, 2003, the Company completed its acquisition of PersonalCare Health Management, Inc. (“PersonalCare”), in Champaign, Illinois. The acquisition was accounted for using the purchase method of accounting, and, accordingly, the operating results of PersonalCare have been included in the Company’s consolidated financial statements since the date of acquisition. The purchase price

for PersonalCare was allocated to the assets, including identifiable intangible assets and liabilities based on estimated fair values. As of the acquisition date, PersonalCare had approximately 78,000 commercial members in Illinois.

D. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consist of costs in excess of the fair value of the net tangible assets of subsidiaries or operations acquired through June 30, 2003.

Goodwill

As described in the Company's segment disclosure, assets are not allocated to specific products, and, accordingly, goodwill can not be reported by segment. The changes in the carrying amount of goodwill for the six months ended June 30, 2003 are as follows (in thousands):

Balance as of December 31, 2002	\$243,746
Acquisition of PersonalCare Health Management, Inc.	13,873
Impairment loss	-
	<hr/>
Balance as of June 30, 2003	\$257,619
	<hr/>

Other Intangible Assets

The other intangible asset balances are as follows (in thousands):

	Gross			
	Carrying	Accumulated	Carrying	Amortization
	Amount	Amortization	Amount	Period
	<hr/>			
As of June 30, 2003				
Amortized other intangible assets:				
Customer Lists	\$21,369	\$ 3,817	\$17,552	5-15 Years
HMO Licenses	10,700	3,115	7,585	15-20 Years
	<hr/>			
Total amortized other intangible assets	\$32,069	\$ 6,932	\$25,137	
	<hr/>			
Unamortized other intangible assets:				
Trade Names	\$ 100	\$ -	\$ 100	
	<hr/>			
Total other intangible assets	\$32,169	\$ 6,932	\$25,237	
	<hr/>			
As of December 31, 2002				
Amortized other intangible assets:				
Customer Lists	\$25,474	\$7,745	\$17,729	5-15 Years
HMO Licenses	10,700	2,842	7,858	15-20 Years
	<hr/>			
Total amortized other intangible assets	\$36,174	\$10,587	\$25,587	
	<hr/>			
Unamortized other intangible assets:				
Trade Names	\$ 100	\$ -	\$ 100	
	<hr/>			
Total other intangible assets	\$36,274	\$10,587	\$25,687	
	<hr/>			

Other intangible asset amortization expense for quarters ended June 30, 2003 and 2002 was \$0.6 million and \$0.8 million, respectively, and \$1.3 million and \$1.6 million for the six months ended June 30, 2003 and 2002, respectively. Estimated intangible asset amortization expense is \$2.4 million for the year ending December 31, 2003 and \$2.2 million for the years ending December 31, 2004 through 2007. The weighted-average amortization period is approximately 12 years for other intangible assets.

E. SENIOR NOTES

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, on February 1, 2002, the Company completed a transaction to sell \$175.0 million original 8.125% senior notes. As required under the terms of the senior notes, the Company made an interest payment of \$7.1 million during the first quarter of 2003. The Company has complied with all covenants under the senior notes.

F. CONTINGENCIES

Legal Proceedings

In the normal course of business, the Company has been named as a defendant in various legal actions such as actions seeking payments for claims denied by the Company, medical malpractice actions and other various claims seeking monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through June 30, 2003 may result in the assertion of additional claims. The Company carries general liability insurance for each of the Company's operations on a claims-made basis with varying deductibles for which the Company maintains reserves. The Company maintains general liability and professional liability insurance coverage in amounts that it believes is appropriate. The Company carries professional malpractice insurance through its captive subsidiary.

The Company's captive subsidiary provides up to \$5 million in coverage for each event and up to \$10 million in coverage for each event that is a class action. The captive has an aggregate policy limit of \$20 million, which is an increase of \$5 million from the prior year. On top of the captive's per event limit of \$5 million, the captive is co-insured with a commercial carrier for an additional \$10 million. Each year the Company will re-evaluate the most cost effective method for insuring these types of claims.

Coventry Health Care, Inc. is a defendant in the provider track in the Managed Care Litigation filed in the United States District Court for the Southern District of Florida, Miami Division, MDL No. 1334, styled in re: Humana, Inc., Charles B. Shane, MD, et al. vs. Humana, Inc., et al. This action was filed by a group of physicians as a class action against Coventry and twelve other companies in the managed care field. In its fourth amended complaint, the plaintiffs have alleged violations of the federal racketeering act, Racketeer Influenced and Corrupt Organizations ("RICO"), conspiracy to violate RICO and aiding and abetting a scheme to violate RICO. In addition to these RICO claims, the complaint includes counts for breach of contract, violations of various state prompt payment laws and equitable claims for unjust enrichment and quantum meruit. Coventry has filed a motion to dismiss each of these claims because they fail to state a cause of action or, in the alternative, to compel arbitration pursuant to the arbitration provisions which exist in the Company's physician contracts. The trial court has certified various subclasses of physicians; however, the Company was not subject to the class certification order because the motion to certify was filed before Coventry was joined as a defendant. The plaintiffs are currently pursuing class discovery against Coventry and will then file their motion for class certification as to Coventry. The defendants who were subject to the certification order filed an appeal to the 11th Circuit which has been granted. Although Coventry can not predict the outcome, management believes that the claims asserted in this lawsuit are without merit and the Company intends to defend its position.

Federal Employees Health Benefits Program

The Company contracts with the Office of Personnel Management ("OPM") to provide managed health care services under the Federal Employee Health Benefits Program ("FEHBP"). These contracts with the OPM and applicable government regulations establish premium rating arrangements for this program. The OPM conducts periodic audits of its contractors to, among other things, verify that the premiums established under its contracts are in compliance with the community rating and other requirements under FEHBP. The OPM may seek premium refunds or institute other sanctions against health plans that participate in the program.

HealthAmerica Pennsylvania, Inc., the Company's Pennsylvania HMO subsidiary, has received draft audit reports from the OPM that questioned approximately \$31.1 million of subscription charges for contract years 1993 - 1999 that were paid to this subsidiary under the FEHBP. The reports recommend that if these amounts are deemed to be due, approximately \$5.5 million in lost investment income charges should also be recovered with respect to such overcharges, with additional interest continuing to accrue until repayment of the overcharged amounts. This matter has also been referred to the Office of the U.S. Attorney for consideration of a possible civil action. The Company has responded to the OPM and the U.S. Attorney with respect to the amounts questioned during these audits and has provided additional information

to support its positions. Although the Company can not predict the outcome of this matter, management believes, after consultation with legal counsel, that the ultimate resolution of this matter will not have a material adverse effect on the accompanying condensed consolidated financial statements.

G. RESTRICTED STOCK AWARDS

In the second quarter of 2003, the Company awarded 309,000 shares of restricted stock with varying vesting periods through May 2007. The fair value of the restricted shares, at the date of grant, is amortized over the vesting period. The restricted stock shares were granted at a weighted-average fair value of \$43.33. The Company recorded compensation expense related to restricted stock grants, including restricted stock previously awarded in 2001 and 2002, of approximately \$2.2 million and \$1.4 million for the quarters ended June 30, 2003 and 2002, respectively, and \$4.0 million and \$2.1 million for the six months ended June 30, 2003 and 2002, respectively. The deferred portion of the restricted stock grants is \$26.6 million at June 30, 2003 and \$17.2 million at December 31, 2002.

H. SEGMENT INFORMATION

The Company has three reportable segments: Commercial, Medicare and Medicaid products. The products are provided to a cross section of employer groups and individuals throughout the Company's health plans. Commercial products include health maintenance organization ("HMO"), preferred provider organization ("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. The Company provides comprehensive health benefits to members participating in Medicare and Medicaid 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, can not be reported by segment. The following tables summarize the Company's reportable segments through gross margin and include a medical loss ratio ("MLR") calculation:

Quarters Ended June 30, (in thousands)

	<u>Commercial</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Total</u>
2003				
Revenues	\$823,304	\$119,611	\$132,068	\$1,074,983
Medical costs	658,817	95,999	115,189	870,005
Gross margin	\$164,487	\$ 23,612	\$ 16,879	\$ 204,978
MLR	80.0%	80.3%	87.2%	80.9%
2002				
Revenues	\$ 639,551	\$ 104,706	\$ 127,670	\$ 871,927
Medical costs	529,121	85,802	110,327	725,250
Gross margin	\$110,430	\$ 18,904	\$ 17,343	\$ 146,677
MLR	82.7%	81.9%	86.4%	83.2%

Six Months Ended June 30, (in thousands)

	<u>Commercial</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Total</u>
2003				
Revenues	\$1,623,986	\$ 237,521	\$ 256,783	\$2,118,290
Medical costs	1,307,164	198,020	226,091	1,731,275
Gross margin	\$ 316,822	\$ 39,501	\$ 30,692	\$ 387,015
MLR	80.5%	83.4%	88.0%	81.7%
2002				
Revenues	\$ 1,248,745	\$ 208,688	\$245,723	\$1,703,156
Medical costs	1,041,582	178,260	208,178	1,428,020
Gross margin	\$ 207,163	\$ 30,428	\$ 37,545	\$ 275,136
MLR	83.4%	85.4%	84.7%	83.8%

I. COMPREHENSIVE INCOME

Comprehensive income for the quarters and six months ended June 30, 2003 and 2002 was as follows (in thousands):

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net earnings	\$ 63,427	\$ 36,601	\$ 112,934	\$ 65,040
Other comprehensive gain:				
Holding gain	8,396	11,251	9,282	4,339
Reclassification adjustment	(157)	460	(595)	212
Sub-total	8,239	11,711	8,687	4,551
Tax effect	(2,924)	(4,567)	(3,083)	(1,775)
Comprehensive income	\$ 68,742	\$ 43,745	\$ 118,538	\$ 67,816

J. SUBSEQUENT EVENTS

On July 9, 2003, the Company announced that it had signed a definitive agreement to acquire Altius Health Plans Inc. (“Altius”), a Utah-based commercial-only health plan. Altius has total membership of approximately 160,000 consisting of 116,000 risk and 44,000 non-risk members. The transaction is expected to close late in the third quarter of 2003, subject to closing conditions, regulatory and other customary approvals.

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

Quarters and Six Months Ended June 30, 2003 and 2002

The statements contained in this Form 10-Q that are not historical are forward-looking statements, made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words "anticipate," "will," "believe," "estimate," "expect," "intend," "seek," or similar expressions. These forward-looking statements include all statements that are not statements of historical fact as well as those regarding our intent, belief or expectations including, but not limited to, the discussions of our operating and growth strategy, projections of revenue, income or loss and future operations. These forward-looking statements may be affected by a number of factors, including, but not limited to, the "Risk Factors" contained in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2002. Actual operations and results may differ materially from those expressed in this Form 10-Q.

Unless this Form 10-Q indicates otherwise or the context otherwise requires, the terms "we," "our," "our Company," "the Company" or "us" as used in this Form 10-Q refer to Coventry Health Care, Inc. and its subsidiaries.

The following discussion and analysis relates to our financial condition and results of operations for the quarters ended and six months ended June 30, 2003 and 2002. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and other information presented herein as well as in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 24, 2003, including the critical accounting policies discussed therein. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, and recent press releases can be found, within one week of being filed with or furnished to the Securities and Exchange Commission and free of charge, on the Internet at www.cvty.com.

General Overview

We are a leading publicly traded managed health care company with approximately 2.2 million members, excluding our network rental members, as of June 30, 2003. We operate health plans under the names Coventry Health Care, Coventry Health and Life, Carelink Health Plans, Group Health Plan, HealthAmerica, HealthAssurance, HealthCare USA, PersonalCare, Southern Health and WellPath. We operate a diversified portfolio of local market health plans serving 13 markets, primarily in the Mid-Atlantic, Midwest and Southeast regions. Our health plans generally are located in small to mid-sized metropolitan areas.

We offer employer groups a broad range of commercial managed care products that vary with respect to the level of benefits provided, the costs paid by employers and members and our members' access to providers without referral or preauthorization requirements. We offer underwritten or "risk" products, including health maintenance organizations ("HMO"s), preferred provider organizations ("PPO"s) and point of service ("POS") plans. In addition, we offer defined contribution health plans. Our risk products also include state-sponsored managed Medicaid programs and Medicare+Choice programs in selected markets where we believe we can achieve profitable growth based upon favorable reimbursement levels, provider costs and regulatory climates. For our risk products, we receive premiums in exchange for assuming underwriting risks and performing sales, marketing and administrative functions. We also offer "non-risk" products to employer groups that self-insure employee health benefits. The management services we provide typically include provider contracting, claims processing, utilization review and quality assurance. For our non-risk products, we receive fees for access to our provider networks and the management services we provide, but we do not generally assume any underwriting risk for these products. In addition, we offer a product where we rent our network of providers ("network rental members") to other managed care plans or self-insured employers and assume no underwriting risk and provide no management services.

Revenues

We generate operating revenues from managed care premiums and management services. Our managed care premiums are derived from our commercial risk products and our government programs. Our commercial managed care premium revenues are comprised of premiums from our commercial HMO products and flexible provider products, including PPO and POS products for which we assume full underwriting risk. Premiums for such commercial PPO and POS products are typically lower than HMO premiums due to medical underwriting and higher deductibles and co-payments that are required of the PPO and POS members. Premium rates for Commercial HMO, POS and PPO products are reviewed by various state agencies based on rate filings. In response to this regulatory review, we may have to modify or revise our rate filings in order to obtain the required regulatory approvals. While these modifications have not been material in the past, no assurance can be given that future rate filings will be approved in the same fashion. We provide comprehensive health benefits to members participating in government programs and receive premium payments from federal and state governments. Premium rates for the Medicaid and Medicare+Choice products are established by governmental regulatory agencies and may be reduced by regulatory action.

Our management services revenues result from operations in which our health plans provide administrative and other services to self-insured employers and to employer group beneficiaries that have elected HMO coverage. We receive an administrative fee for these services, but do not assume underwriting risk. Certain of our management services contracts include performance and utilization management standards that if not met may cause us to incur penalties. In addition, we offer a PPO product to other third party payors, under which we provide rental of and access to our PPO network, claims repricing and utilization review, and do not assume underwriting risk.

Expenses

Our primary operating expenses consist of medical costs; selling, general and administrative expense; and depreciation and amortization expense. Our medical costs include medical claims paid under contractual relationships with a wide variety of providers and capitation payments. Medical costs also include an estimate for claims incurred but not reported (“IBNR”).

In determining our IBNR liabilities, we employ standard actuarial reserve methods that are specific to each market’s membership, product characteristics, geographic territories and provider network. We also consider utilization frequency and unit costs of inpatient, outpatient, pharmacy and other medical expenses, as well as the rate of claims submissions, claim payment backlogs and the timing of provider reimbursements. Estimates are reviewed by our underwriting, finance and accounting personnel and other appropriate health plan and corporate personnel. 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 submissions or backlog could cause these estimates to be revised in the near term. We continually monitor and review our IBNR reserves, and as actual payments are made or accruals adjusted, reflect these differences in current operations. Medical costs are affected by a variety of factors, including the severity and frequency of claims. These factors are difficult to predict and may not be entirely within our control. We continually refine our actuarial practices to incorporate new cost events and trends.

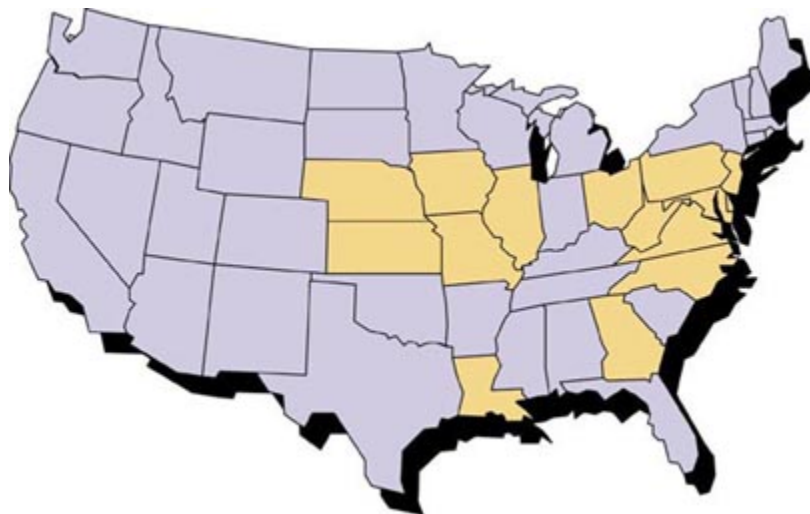
Membership

The following tables show our total risk and non-risk members as of June 30, 2003 and 2002.

June 30, 2003	Commercial Risk		Governmental Programs		Total Risk	Non-Risk	Total
	HMO	PPO/POS	Medicare	Medicaid			
Delaware	40,000	9,000	-	-	49,000	54,000	103,000
Georgia	24,000	21,000	-	-	45,000	30,000	75,000
Illinois (Central)	63,000	12,000	-	-	75,000	-	75,000
Iowa	64,000	11,000	-	2,000	77,000	15,000	92,000
Kansas	138,000	34,000	15,000	-	187,000	52,000	239,000
Louisiana	43,000	30,000	-	-	73,000	-	73,000
Missouri (St. Louis)	94,000	77,000	16,000	188,000	375,000	76,000	451,000
Nebraska	17,000	23,000	-	-	40,000	6,000	46,000
North Carolina	60,000	5,000	-	11,000	76,000	40,000	116,000
Pennsylvania	203,000	230,000	30,000	80,000	543,000	114,000	657,000
Virginia	65,000	31,000	-	17,000	113,000	39,000	152,000
West Virginia	38,000	12,000	3,000	16,000	69,000	4,000	73,000
Total	849,000	495,000	64,000	314,000	1,722,000	430,000	2,152,000

June 30, 2002	Commercial Risk		Governmental Programs		Total Risk	Non-Risk	Total
	HMO	PPO/POS	Medicare	Medicaid			
Delaware	41,000	11,000	-	43,000	95,000	60,000	155,000
Georgia	23,000	19,000	-	-	42,000	38,000	80,000
Illinois (Central)	-	-	-	-	-	-	-
Iowa	62,000	8,000	-	2,000	72,000	13,000	85,000
Kansas	119,000	54,000	15,000	-	188,000	-	188,000
Louisiana	42,000	28,000	-	-	70,000	-	70,000
Missouri (St. Louis)	81,000	67,000	17,000	150,000	315,000	52,000	367,000
Nebraska	20,000	16,000	-	-	36,000	6,000	42,000
North Carolina	48,000	13,000	-	7,000	68,000	32,000	100,000
Pennsylvania	185,000	221,000	24,000	74,000	504,000	111,000	615,000

Virginia	32,000	62,000	-	14,000	108,000	38,000	146,000
West Virginia	41,000	10,000	3,000	17,000	71,000	5,000	76,000
Total	<u>694,000</u>	<u>509,000</u>	<u>59,000</u>	<u>307,000</u>	<u>1,569,000</u>	<u>355,000</u>	<u>1,924,000</u>



Total membership, excluding network rental membership of 739,000, increased by 11.9% from the prior year's second quarter. The increase is attributable to the acquisition of PersonalCare (Illinois) in the first quarter of 2003 and Mid-America (Kansas) in the fourth quarter of 2002 and organic growth. Medicaid membership increased due to an expansion into additional counties and the withdrawal of a competitor in our Missouri market and due to the introduction of a new product in our Pennsylvania market, offset by our exit from the Delaware Medicaid business representing approximately 43,000 members. Non-risk membership increased as a result of the Mid-America acquisition mentioned above and from additional organic membership obtained in our Missouri market.

Completed and Subsequent Acquisitions

Effective February 1, 2003, we completed our acquisition of PersonalCare Health Management, Inc. ("PersonalCare"), in Champaign, Illinois. The acquisition was accounted for using the purchase method of accounting and, accordingly, the operating results of PersonalCare have been included in our condensed consolidated financial statements since the date of acquisition. The purchase price for PersonalCare was allocated to the assets, including identifiable intangible assets and liabilities based on estimated fair values. As of the acquisition date, PersonalCare had approximately 78,000 commercial members in Illinois.

On July 9, 2003, we announced that we had signed a definitive agreement to acquire Altius Health Plans Inc. ("Altius"). Altius is a privately-owned, Utah-based commercial-only health plan with total membership of approximately 160,000 consisting of 116,000 risk and 44,000 non-risk members. The transaction is expected to close late in the third quarter of 2003, subject to closing conditions, regulatory and other customary approvals.

Results of Operations

The following summary table is provided to facilitate a more meaningful discussion regarding the comparison of our operations for the quarters and six months ended June 30, 2003 and 2002 (in thousands, except percentages).

	Quarters Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2003	2002		2003	2002	
Operating revenues:						
Managed care premiums	\$1,074,983	\$ 871,927	\$ 203,056	\$2,118,290	\$1,703,156	\$ 415,134
Management services	21,448	18,186	3,262	43,558	35,507	8,051
<hr/>						
Total operating revenues	\$1,096,431	\$ 890,113	\$ 206,318	\$2,161,848	\$1,738,663	\$ 423,185
<hr/>						
Operating expenses:						
Medical costs	\$ 870,005	\$ 725,250	\$ 144,755	\$1,731,275	\$1,428,020	\$ 303,255
Selling, general and administrative	130,634	108,681	21,953	260,719	213,339	47,380
Depreciation and amortization	4,537	4,745	(208)	9,145	9,374	(229)
<hr/>						
Total operating expenses	\$ 1,005,176	\$ 838,676	\$ 166,500	\$2,001,139	\$1,650,733	\$ 350,406
Operating earnings	91,255	51,437	39,818	160,709	87,930	\$ 72,779
<hr/>						
Net earnings	\$ 63,427	\$ 36,601	\$ 26,826	\$ 112,934	\$ 65,040	\$ 47,894
Basic earnings per share	\$ 1.08	\$ 0.62	\$ 0.46	\$ 1.94	\$ 1.09	\$ 0.85
Diluted earnings per share	\$ 1.05	\$ 0.60	\$ 0.45	\$ 1.88	\$ 1.05	\$ 0.83
<hr/>						
Medical loss ratios:						
Commercial	80.0%	82.7%	(2.7%)	80.5%	83.4%	(2.9%)
Medicare	80.3%	81.9%	(1.6%)	83.4%	85.4%	(2.0%)
Medicaid	87.2%	86.4%	0.8%	88.0%	84.7%	3.3%
<hr/>						
Total	80.9%	83.2%	(2.3%)	81.7%	83.8%	(2.1%)
<hr/>						
Administrative ratio:						

Selling, general and administrative	11.9%	12.2%	(0.3%)	12.1%	12.3%	(0.2%)
Days in medical claims liabilities	55.14	59.86	(4.72)			
Days in other medical liabilities	6.40	8.14	(1.74)			

Quarters Ended June 30, 2003 and 2002

Managed care premium revenue increased from the prior year's second quarter as a result of rate increases on renewals that occurred throughout all markets, organic membership growth, and acquisitions. Commercial yields increased by an average of 13.0% over second quarter 2002 on a per member per month ("PMPM") basis, to \$204.83 PMPM. We expect commercial rate increases on renewals to be in the range of 13% to 15% for the remainder of 2003. Medicare yields increased by an average of 5.9% over second quarter 2002 on a PMPM basis as a result of changes being made to rate structures, as well as changes in demographics.

Management services revenue increased from the prior year's second quarter due to the increase in non-risk membership discussed above.

Medical costs increased from the prior year's second quarter due to acquisitions, organic membership growth and medical trend.

Our total medical loss ratio (medical costs as a percentage of managed care premiums) for all products improved 2.3% from the prior year's second quarter to 80.9%. This favorable change was attributable mostly to our commercial business, which improved from 82.7% to 80.0% as a result of the commercial rate increases mentioned above outpacing commercial medical trend.

Selling, general and administrative expense increased from the prior year's second quarter primarily due to increased costs associated with acquisitions and an increase in broker commissions. Broker commissions have increased due to the growth in both membership and in premium yields. As a percentage of revenue, selling, general and administrative expense decreased by 0.3%.

Other income increased from the prior year's second quarter due an increase in interest income as a result of a larger investment portfolio in 2003 and due to a change in value of our only investment classified as derivative in nature. The prior year's second quarter reported a loss from that derivative compared to a gain in the current quarter. This derivative investment was sold during the current quarter.

Our provision for income taxes increased from the prior year's second quarter due to an increase in earnings before taxes and due to an increase in the effective tax rate. The effective tax rate was 36.0% and 35.5% for the quarters ended June 30, 2003 and 2002, respectively. This increase in the tax rate is the result of our increased profitability.

Six Months Ended June 30, 2003 and 2002

Managed care premium revenue for the six months ended June 30, 2003 increased from the corresponding period of 2002 as a result of rate increases on renewals that occurred throughout all markets, organic membership growth, and acquisitions. Commercial yields increased by an average of 12.8% over the 2002 period on a PMPM basis, to \$202.86 PMPM. Medicare yields increased by an average of 5.7% over the 2002 period on a PMPM basis as a result of changes being made to rate structures, as well as changes in demographics.

Management services revenue increased from the six months ended June 30, 2002 due to the increase in non-risk membership discussed above.

Medical costs increased from the six months ended June 30, 2002 due to acquisitions, organic membership growth and medical trend.

Our medical loss ratio improved 2.1% from the six months ended June 30, 2002 to 81.7%. This favorable change was attributable mostly to our commercial business, which improved from 83.4% to 80.5% as a result of the commercial rate increases mentioned above outpacing commercial medical trend.

Selling, general and administrative expense increased from the six months ended June 30, 2002 primarily due to increased costs associated with acquisitions and an increase in broker commissions. Broker commissions have increased due to the growth in both membership and in premium yields. As a percentage of revenue, selling, general and administrative expense decreased by 0.2%.

Senior notes interest expense has increased in 2003. Due to the issuance of the notes on February 1, 2002, the prior year's period represented five months of interest compared to six months in 2003.

Other income increased from the prior year' s corresponding period due to an increase in interest income as a result of a larger investment portfolio in 2003 and due to an increase in value of our only investment classified as derivative in nature. The prior year' s six-month period reported a loss from that derivative compared to a gain in the current six-month period. This derivative investment was sold during the current quarter.

Our provision for income taxes increased from the prior year' s six months due to an increase in earnings before taxes.

Liquidity and Capital Resources

Consolidated

Our total cash and investments, consisting of cash and cash equivalents and short-term and long-term investments, but excluding deposits of \$22.3 million restricted under state regulations, increased to \$1.3 billion at June 30, 2003 from \$1.1 billion at December 31, 2002.

We have classified all of our investments as available-for-sale. Our investments at June 30, 2003 mature according to their contractual terms, as follows, in thousands (actual maturities may differ because of call or prepayment rights):

	<u>Amortized Cost</u>	<u>Fair Value</u>
As of June 30, 2003		
Maturities:		
Within 1 year	\$ 144,563	\$ 145,519
1 to 5 years	351,558	370,712
5 to 10 years	311,566	327,393
Over 10 years	<u>195,648</u>	<u>202,767</u>
Total short-term and long-term securities	<u>\$ 1,003,335</u>	<u>\$ 1,046,391</u>

Net cash provided by operating activities for the six months ended June 30, 2003 increased over the prior year due to an increase in net earnings, an increase in receipts of provider and other medical receivables and an increase in deferred revenue. Cash flows used for investing activities for the six months ended June 30, 2003 decreased due to an increase in the proceeds from sales of investments offset by an increase in the amount paid for acquisitions, net of cash acquired. The PersonalCare acquisition completed in the first quarter of 2003 was larger than the New Alliance acquisition completed in the second quarter of 2002. Cash flows from financing activities for the six months ended June 30, 2003 increased over the prior year, primarily due to the repurchase of shares of our common stock and a warrant, offset by proceeds from the issuance of our senior notes in 2002.

Our investment guidelines emphasize investment grade fixed income instruments in order to provide liquidity to meet future payment obligations and minimize the risk of principal. The fixed income portfolio includes government and corporate securities with an average quality rating of "AA+" and an average contractual maturity of 3.9 years as of June 30, 2003. We believe that since our long-term investments are available-for-sale, the amount of such investments should be added to current assets when assessing our working capital and liquidity. On such basis, current assets plus long-term investments available-for-sale less current liabilities increased to \$627.0 million at June 30, 2003 from \$498.0 million at December 31, 2002.

Health Plans

Our HMOs, our insurance company subsidiary, Coventry Health and Life Insurance Company (“CH&L”), and our captive subsidiary, CHC Risk Retention Group, Inc. (“CRRG”) are required by state regulatory agencies to maintain minimum surplus balances, thereby limiting the dividends the parent may receive from its HMOs, CH&L and CRRG. During the six months ended June 30, 2003, the parent collected \$55.0 million in dividends from our subsidiaries subject to such regulatory restrictions.

The majority of states in which we operate health plans have adopted a risk-based capital (“RBC”) policy that recommends the health plans maintain statutory reserves at or above the ‘Company Action Level’ which is currently equal to 200% of their RBC (250% for CH&L). Although not all states have adopted the RBC policy, we maintain all of our health plans at this standard. The total surplus in excess of 200% for all of our HMO subsidiaries was approximately \$189.9 million at June 30, 2003, up from \$155.8 million at December 31, 2002. These total statutory reserves for our HMO subsidiaries, as a percentage of RBC, was 351% and 331% as of June 30, 2003 and December 31, 2002, respectively. The increase is primarily due to current year earnings from our HMO subsidiaries offset by dividends paid to the parent.

CH&L had surplus in excess of 250% of RBC of approximately \$36.4 million and \$24.1 million at June 30, 2003 and December 31, 2002, respectively. The total statutory reserve for CH&L, as a percentage of RBC, was 792% and 609% as of June 30, 2003 and December 31, 2002, respectively. The increase is primarily due to income from the first six months of 2003.

CRRG had surplus in excess of 200% of RBC of approximately \$1.3 million and \$1.2 million at June 30, 2003 and December 31, 2002, respectively. The total statutory reserve for CRRG, as a percentage of RBC, was 336% and 325% as of June 30, 2003 and December 31, 2002, respectively.

Excluding funds held by entities subject to regulation, we had cash and investments of approximately \$156.6 million and \$86.7 million at June 30, 2003 and December 31, 2002, respectively. The increase in non-regulated cash and investments is primarily a result of dividends received from subsidiaries mentioned above and ordinary operating activities offset by a payment for an acquisition. During the six months ended June 30, 2003, we did not make any capital contributions to our regulated subsidiaries.

Other

Projected capital investments in 2003 of approximately \$13.7 million consist primarily of computer hardware, software and related equipment costs associated with the development and implementation of improved operational and communications systems. As of June 30, 2003, approximately \$5.2 million has been spent.

The United States Department of Health and Human Services has issued rules, as mandated by the Health Insurance Portability and Accountability Act of 1996, which, among other things, impose security and privacy requirements with respect to individually identifiable patient data, including a member’s transactions with health care providers and payors, as well as requirements for the standardization of certain electronic transaction code sets and provider identifiers. We have spent approximately \$2.1 million on compliance matters for the six months ended June 30, 2003. We anticipate spending approximately \$5.5 million in 2003, of which approximately \$1.1 million will be capitalized, related to improved functionality of our electronic transaction code sets, improved provider identifier standards, and improved security and patient information privacy standards.

Management believes that our cash flows generated from operations, cash and investments, and excess funds in certain of our regulated subsidiaries will be sufficient to fund continuing operations, capital expenditures, and debt interest costs at least through December 31, 2003.

Legal Proceedings

In the normal course of business, we have been named as a defendant in various legal actions such as actions seeking payments for claims denied by the Company, medical malpractice actions and other various claims seeking monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through June 30, 2003 may result in the assertion of additional claims. We carry general liability insurance for each of our operations on a claims-made basis with varying deductibles for which we maintain reserves. We maintain general liability and professional liability insurance coverage in amounts that we believe is appropriate. We carry professional malpractice insurance through our captive subsidiary.

Our captive subsidiary provides up to \$5 million in coverage for each event and up to \$10 million in coverage for each event that is a class action. The captive has an aggregate policy limit of \$20 million, which is an increase of \$5 million from the prior year. On top of the captive's per event limit of \$5 million, the captive is co-insured with a commercial carrier for an additional \$10 million. Each year we will re-evaluate the most cost effective method for insuring these types of claims.

We are a defendant in the provider track in the Managed Care Litigation filed in the United States District Court for the Southern District of Florida, Miami Division, MDL No. 1334, styled in re: Humana, Inc., Charles B. Shane, MD, et al. vs. Humana, Inc., et al. This action was filed by a group of physicians as a class action against us and twelve other companies in the managed care field. In its fourth amended complaint, the plaintiffs have alleged violations of RICO, conspiracy to violate RICO and aiding and abetting a scheme to violate RICO. In addition to these RICO claims, the complaint includes counts for breach of contract, violations of various state prompt payment laws and equitable claims for unjust enrichment and quantum meruit. We have filed a motion to dismiss each of these claims because they fail to state a cause of action or, in the alternative, to compel arbitration pursuant to the arbitration provisions which exist in our physician contracts. The trial court has certified various subclasses of physicians; however, we were not subject to the class certification order because the motion to certify was filed before we were joined as a defendant. The plaintiffs are currently pursuing class discovery against us and will then file their motion for class certification as to us. The defendants who were subject to the certification order have filed an appeal with the 11th Circuit Court of Appeals which has been granted. Although we can not predict the outcome, we believe that the claims asserted in this lawsuit are without merit and we intend to defend our position.

Legislation and Regulation

As a publicly traded managed health care company, we are subject to extensive government regulation of our products and services. The laws and regulations affecting our industry generally give state and federal regulatory authorities broad discretion in their exercise of supervisory, regulatory and administrative powers. These laws and regulations are intended primarily for the benefit of the members of the health plans. Managed care laws and regulations vary significantly from jurisdiction to jurisdiction and changes are frequently considered and implemented. Although the provisions of any legislation adopted at the state or federal level can not be accurately predicted at this time, management believes that the ultimate outcome of currently proposed legislation would not have a material adverse effect on our results of operations in the short-term.

Our 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 effect on our operations.

Federal Employees Health Benefits Program

We contract with the Office of Personnel Management (“OPM”) to provide managed health care services under the Federal Employee Health Benefits Program (“FEHBP”). These contracts with the OPM and applicable government regulations establish premium rating arrangements for this program. The OPM conducts periodic audits of its contractors to, among other things, verify that the premiums established under its contracts are in compliance with the community rating and other requirements under FEHBP. The OPM may seek premium refunds or institute other sanctions against health plans that participate in the program.

HealthAmerica Pennsylvania, Inc., our Pennsylvania HMO subsidiary, has received draft audit reports from the OPM that questioned approximately \$31.1 million of subscription charges for contract years 1993 - 1999 that were paid to this subsidiary under the FEHBP. The reports recommend that if these amounts are deemed to be due, approximately \$5.5 million in lost investment income charges should also be recovered with respect to such overcharges, with additional interest continuing to accrue until repayment of the overcharged amounts. This matter has also been referred to the Office of the U.S. Attorney for consideration of a possible civil action. We have responded to the OPM and the U.S. Attorney with respect to the amounts questioned during these audits and have provided additional information to support our positions. Although we can not predict the outcome of this matter, management believes, after consultation with legal counsel, that the ultimate resolution of this matter will not have a material adverse effect on the accompanying financial statements.

ITEM 3: Quantitative and Qualitative Disclosures of Market Risk

Under an investment policy approved by our Board of Directors, we invest primarily in marketable U.S. Government and agency, state, municipal, mortgage-backed and asset-backed securities and corporate debt obligations that are investment grade. The investment policy specifically prohibits investments in any equities or in corporate debt obligations that are below investment grade. We have classified all of our investments as available-for-sale. We are exposed to certain market risks including interest rate risk and credit risk.

We have established policies and procedures to manage our exposure to changes in the fair value of our investments. Our policies include an emphasis on credit quality and the management of our portfolio' s duration, profile and security mix. We believe our investment portfolio is diversified and currently expect no material loss to result from the failure to perform by the issuers of the debt securities we hold. The mortgage-backed securities are insured by several associations, including Government National Mortgage Administration and Federal National Mortgage Administration.

Investments are evaluated on at least a quarterly basis to determine if declines in value are other-than-temporary. In making that determination, all available evidence relating to the realizable value of a security is considered. Debt securities with declines in value below cost due to market conditions or industry-specific events where we intend and have the ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other-than-temporary.

Temporary declines in value of investments classified as available-for-sale are netted with unrealized gains and reported as a net amount in a separate component of stockholders' equity. A decline in fair value below amortized cost that is judged to be other-than-temporary is accounted for as a realized loss and the write down is included in earnings. Realized gains and losses on the sale of investments are determined on a specific identification basis.

No material changes have occurred in our exposures to market risk since the date of our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Our projections of hypothetical net losses in fair value of our market rate sensitive instruments, should potential changes in market rates occur, are presented below. The projection is based on a duration model, which tests hypothetical changes in interest rates of positive and negative 100, 200 and 300 basis points. The model excludes cash, and assumes instantaneous changes in interest rates. While we believe that the potential market rate change is reasonably possible, actual results may differ.

**Increase (Decrease) in fair value of portfolio
given an interest rate (decrease) increase of X basis points
As of June 30, 2003
(in thousands)**

(300)	(200)	(100)	100	200	300
\$ 113,010	\$ 75,340	\$ 37,670	\$ (37,670)	\$ (75,340)	\$ (113,010)

ITEM 4: Controls and Procedures

We have performed an evaluation as of the end of the period covered by this report, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

PART II. OTHER INFORMATION

ITEM 1: Legal Proceedings

In the normal course of business, we have been named as a defendant in various legal actions such as actions seeking payments for claims denied by the Company, medical malpractice actions and other various claims seeking monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through June 30, 2003 may result in the assertion of additional claims. We carry general liability insurance for each of our operations on a claims-made basis with varying deductibles for which we maintain reserves. We maintain general liability and professional liability insurance coverage in amounts that we believe is appropriate. We carry professional malpractice insurance through our captive subsidiary.

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ITEMS 2 and 3: Not Applicable

ITEM 4: Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Shareholders on June 5, 2003. An aggregate of 54,450,226 shares of Common Stock, or 92.34% of the Company's outstanding shares, were represented at the meeting either in person or by proxy and, accordingly, the meeting was duly constituted. The following proposals were adopted by a majority of the shares voting for each proposal as follows:

Proposal One: To elect Class III Directors to serve until the annual meeting of shareholders in 2006:

NAME	NUMBER OF SHARES/PERCENTAGE OF COMMON STOCK			
	FOR	%	WITHHELD	%
John H. Austin, M.D.	52,343,186	88.77	2,107,040	3.57
Rodman W. Moorhead, III	52,576,686	89.16	1,873,540	3.18
Timothy T. Weglicki	52,700,987	89.37	1,749,239	2.97

Proposal Two: To approve certain amendments to the Amended and Restated 1998 Stock Incentive Plan.

FOR	46,654,788	79.12%
AGAINST	4,309,375	7.31%
ABSTAIN	38,800	0.07%

Proposal Three: Ratification of Ernst & Young, LLP as the Company's Independent Auditors.

FOR	52,771,285	89.49%
AGAINST	1,666,134	2.83%
ABSTAIN	12,807	0.02%

ITEM 5: Not applicable

ITEM 6: Exhibits and Reports on Form 8-K

(a) Exhibit Listing

Exhibit No.	Description of Exhibit
10.18.3	2003 Deferred Compensation Plan.
31.1	Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Allen F. Wise, President, Chief Executive Officer and Director.
31.2	Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Dale B. Wolf, Executive Vice President, Chief Financial Officer and Treasurer.
32.1	Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 made by Allen F. Wise, President, Chief Executive Officer and Director and Dale B. Wolf, Executive Vice President, Chief Financial Officer and Treasurer.

(b) Reports on Form 8-K

In connection with news release regarding our results of operations for the quarter ended March 31, 2003 and our financial condition as of the period then ended, we filed a current report on Form 8-K with the Securities and Exchange Commission on April 29, 2003.

In connection with Moody' s confirmation of our ratings (senior unsecured notes at Ba3) and revision of our outlook to positive, we filed a current report on Form 8-K with the Securities and Exchange Commission on June 16, 2003.

SIGNATURES

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

COVENTRY HEALTH CARE, INC.

(Registrant)

Date: August 12, 2003

/s/ Allen F. Wise

Allen F. Wise
President, Chief Executive Officer and Director

Date: August 12, 2003

/s/ Dale B. Wolf

Dale B. Wolf
Executive Vice President, Chief Financial Officer and Treasurer

Date: August 12, 2003

/s/ John J. Ruhlmann

John J. Ruhlmann
Vice President and Controller

Reg. S-K: Item 601

Exhibit No.	Description of Exhibit
10.18.3	2003 Deferred Compensation Plan
31.1	Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Allen F. Wise, President, Chief Executive Officer and Director.
31.2	Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Dale B. Wolf, Executive Vice President, Chief Financial Officer and Treasurer.
32.1	Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 made by Allen F. Wise, President, Chief Executive Officer and Director and Dale B. Wolf, Executive Vice President, Chief Financial Officer and Treasurer.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allen F. Wise, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coventry Health Care, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

- The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Allen F. Wise

Allen F. Wise
President, Chief Executive Officer and
Director

August 12, 2003

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dale B. Wolf, certify that:

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

By: /s/ Dale B. Wolf

Dale B. Wolf
Executive Vice President, Chief Financial
Officer and Treasurer

August 12, 2003

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

In connection with the Quarterly Report of Coventry Health Care, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2003

By: /s/ Allen F. Wise

Allen F. Wise
President, Chief Executive Officer and
Director

By: /s/ Dale B. Wolf

Dale B. Wolf
Executive Vice President, Chief Financial
Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to Coventry Health Care, Inc. and will be retained by Coventry Health Care, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Coventry Health Care, Inc.
2003 Deferred Compensation Plan

Article I

Establishment and Purpose of the Plan

1.01 Establishment of the Plan. Coventry Health Care, Inc. (the “Company”) desires to adopt and establish a three-year deferred compensation plan for a select group of its key management and highly compensated employees and their beneficiaries. Effective as of July 1, 2003 (the “Effective Date”), the Company has by execution of this document created a Plan which shall be known as the “Coventry Health Care, Inc. 2003 Deferred Compensation Plan.”

1.02 Purpose. The purpose of the Plan is to attract and retain senior executive officers possessing outstanding ability and to motivate such officers to achieve corporate and individual goals by means of long-term incentives.

It is the intention of the Company that the Plan meet all of the requirements necessary or appropriate to be an unsecured plan of deferred compensation for a select group of management or highly compensated employees within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1), which is not a qualified retirement plan under the Code. All provisions hereof shall be interpreted accordingly.

Article II

Definitions

As used in the Plan:

2.01 “Accounts” shall mean the Company Cash Account and Stock Account maintained by the Administrative Committee under Articles IV and V or any other section of the Plan to reflect a Participant’s interest (or the undistributed interest of a Beneficiary) under the Plan to the extent such Account has been created for a Participant or Beneficiary.

2.02 “Administrative Committee” shall mean the committee provided for in Section 14.01 hereof.

2.03 “Beneficiary” shall mean any person, persons and/or entity entitled to receive benefits which are payable pursuant to Article XI hereof upon or after a Participant’s death.

2.04 “Bonus” or “Bonuses” shall mean amounts paid to a Participant under any bonus plan or arrangement of the Employer during the one year period immediately prior to the Effective Date and for each Plan Year thereafter but shall not include amounts paid under the Plan.

2.05 “Calendar Year” shall mean January 1 through December 31.

2.06 “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 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 of Directors of the Company); or

(ii) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sales 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 constitute the Board of Directors of the Company 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.

2.07 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time. References to any Section of the Internal Revenue Code shall include any successor provisions thereto.

2.08 "Company" shall mean Coventry Health Care, Inc. or any company that is a successor thereto as a result of a merger, consolidation, liquidation, transfer of assets, or other reorganization.

2.09 "Company Cash Allocation" shall mean the amounts credited to the Participant in the Company Cash Account by the Company in accordance with Section 4.01 hereof.

2.10 "Company Cash Account" shall mean the Account maintained for each Participant to record the amounts of the Company Cash Allocation credited to the Participant pursuant to Section 4.01 hereof, as adjusted in accordance with the provisions of Article DC of the Plan.

2.11 "Compensation" shall mean the Salary and Bonus paid to the Employee, including amounts that are not includible in the gross income of the Participant under a salary reduction agreement by reason of the application of Sections 125,402(e)(3), 402(h) or 403(b) of the Code.

Compensation shall not include the following:

2.11 (1) Amounts credited or paid under the Plan.

2.11(2) Amounts included in an Employee's income for federal income tax purposes upon the exercise of a non-qualified stock option or upon receipt or vesting of any restricted stock or other property.

2.11(3) Amounts included in an Employee's income for federal income tax purposes upon the sale, exchange, or disposition of stock acquired upon exercise of an incentive stock option.

2.11(4) Any expense allowances (other than auto allowances which shall be included in Salary for purposes of the Plan), fringe benefits (cash and non-cash), non-cash payments, reimbursed expenses, group-term life insurance or excess group-term life insurance, contributions by the Company to any SERF or 401(k) plans or other similar items which are not included in the Participant's Salary (other than bonuses), whether or not such amounts are includible in the Employee's gross income.

2.12 "Date of Employment" or "Date of Reemployment" shall mean the day on which an Employee first commences employment, or first commences reemployment following Termination of Employment with the Employer.

2.13 "Disability" shall mean disability as determined by the Administrative Committee pursuant to Section 10.02.

2.14 "Effective Date" shall mean July 1, 2003.

2.15 "Eligible Employee" shall mean those Employees who are selected for participation in the Plan by the Administrative Committee of the Plan.

2.16 "Employee" shall mean any person who is employed by one or more Employers, and is on an Employer's payroll.

2.17 "Employer" shall mean the Company or any affiliated company or subsidiary of the Company that adopts the Plan.

2.18 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time. References to any Section of ERISA shall include any successor provision thereto.

2.19 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

2.20 "Fiscal Year" shall mean the fiscal year of an Employer. The Fiscal Year of the Company ends on December 31.

2.21 "Model Portfolio" shall mean the investment vehicles established by the Company for the purpose of crediting earnings or losses to Company Cash Accounts.

2.22 "Participant" shall mean an Eligible Employee who participates in the Plan as provided in Article III hereof.

2.23 "Plan" shall mean this Coventry Health Care, Inc. 2003 Deferred Compensation Plan as set forth in this plan document, and as hereafter amended.

2.24 "Plan Year" shall mean the twelve (12) consecutive month period ending on June 30.

2.25 "Salary" shall mean the annual base salary paid to a Participant according to the Company's normal payroll practices computed immediately prior to the Effective Date and on each June 30 thereafter.

2.26 "Stock Account" shall mean the Account established for each Participant to record the amounts of stock credits, equal in value to the price of the Company's common stock, and credited to the Participant, pursuant to Section 5.01 hereof.

2.27 "Subsidiary" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.28 "Termination For-Cause" shall mean termination of employment with an Employer resulting from (i) a felony conviction of a Participant or the failure of a Participant to contest prosecution for a felony, or (ii) a Participant's willful misconduct or dishonesty, which is directly and materially harmful to the business or reputation of the Company or any Employer.

2.29 "Termination Not-for-Cause" shall mean the termination of employment with an Employer (where the Employee does not remain employed by another Employer), whether voluntary or involuntary, other than by reason of the Participant's Death or Termination For-Cause as defined herein.

2.30 "Valuation Date" shall mean the last day of the respective month.

2.31 "Valuation Period" shall mean a calendar month.

2.32 "Year of Service" shall mean a Plan Year during which the Participant remains in the full time employment of an Employer.

Article III

Requirements for Eligibility and Participation

3.01 Eligibility. Each Eligible Employee in the employ of the Company on the Effective Date shall become a Participant on the Effective Date, subject to the provisions of Section 3.03. Any Employee who first becomes an Eligible Employee after the Effective Date will become a Participant on the date he or she becomes an Eligible Employee, subject to the provisions of Section 3.03.

3.02 Cessation of Eligible Employee Status. If any Participant who does not incur a Termination of Employment ceases to be an Eligible Employee as defined in Section 2.15 hereof, then during the period that such Participant is not an Eligible Employee: (i) such Participant shall not receive any further allocation of any Company Contributions, if any, under the Plan, and (ii) such Participant's Account shall continue to be adjusted as provided in Article IX hereof.

3.03 Participation in the Plan. Each Eligible Employee shall become a Participant only after receiving a notification letter which shall define both the initial level of the Company's Cash Allocation credited to the Company Cash Account and the number of shares of stock credits, equal in value to the price of the Company's common stock, credited to the Stock Account for such Participant for the first Plan Year.

Article IV Company Contributions

4.01 Company Cash Allocations. The Company will make an initial Company Cash Allocation to the Plan for a Participant as disclosed in a notification letter for the initial Plan Year as of the Effective Date. For the two subsequent Plan Years, beginning July 1, 2004 and July 1, 2005, the Company Cash Allocation for a Participant will be determined by the Administrative Committee prior to the beginning of the Plan Year, and a notification letter will be issued to each Participant evidencing such allocation. The Company Cash Allocation for the Chief Executive Officer shall be determined by the Compensation Committee for each Plan Year. The maximum Company Cash Allocation for the Chief Operating Officer, the Chief Financial Officer and the SVP, CSO & CIO of the Company, shall be 40% of Compensation for each Plan Year. The maximum Company Cash Allocation for any other Eligible Employee shall be 25% of Compensation for each Plan Year.

4.02 Timing of Company Cash Allocations. Company Cash Allocations will be made on July 1 of each year.

4.03 Company Cash Allocations in the Event of a Change-of-Control. In the event of a Change-of-Control, and coincident with the effective time of the Change-of-Control, the Company will make an additional Company Cash Allocation in an amount equal to the initial Company Cash Allocation multiplied by the number of Plan Years remaining for which no allocation has yet been made. A zero Company Cash Allocation for a Participant shall be deemed an allocation for purposes of the forgoing calculation.

Article V Stock

5.01 Stock Allocation. For the initial Plan Year only, each Participant will be eligible to receive a credit to his or her Stock Account as of the Plan's Effective Date in an amount equal to 100% of their Company Cash Allocation for the initial Plan Year. The number of shares shall be determined by dividing the Participant's initial Company Cash Allocation by \$44.909 (the average closing stock price for the Company's common stock as indicated on NYSE for the ten (10) consecutive trading days prior to July 1, 2003). On July 1, 2004 and July 1, 2005, each Participant will be eligible to receive additional credits to his or her Stock Account as of such date in an amount equal to the number of shares determined by dividing 35% of the Participant's Company Cash Allocation for that Plan Year by the average closing stock price for the Company's common stock as indicated on the NYSE for the ten (10) consecutive trading days prior to the date of the contribution.

5.02 Stock Allocations in the Event of a Change-of-Control. In the event of a Change-of-Control, and coincident with the effective time of the Change-of-Control, an additional credit to the Stock Account for each Participant will be made in an amount equal to the initial award for such Participant multiplied by the number of Plan Years remaining for which no credit has yet been made. A zero credit to a Participant's Stock Account shall be deemed a credit for purposes of the forgoing calculation.

Article VI Vesting of Accounts

6.01 Vesting of Participant's Accounts. Each Participant will become 100% vested in his or her Accounts on July 1, 2006, unless earlier vesting results from one or more of the following circumstances:

6.01(1) Accelerated Vesting in the Event of a Change-of-Control. In the event of a Change-of-Control, each Participant's Accounts will vest in full as of the date of the Change-of-Control.

6.01(2) Accelerated Vesting in the Event of a Participant's Death or Involuntary Termination Not-for-Cause. In the event of a Participant's Death or involuntary Termination Not-for-Cause, as defined herein, each Participant's Accounts will vest as of the date of Participant's Death or involuntary Termination Not-for-Cause.

6.02 Forfeiture of Participant's Accounts. In the event of a Participant's Termination Not-for-Cause, or Termination For-Cause, the Participant's Accounts will be forfeited in their entirety. Such forfeiture will not be reallocated among other Plan Participants but may be applied to future Company Cash Allocations and Stock Allocations.

Article VII

Account Distributions

7.01 Account Distribution. Except as otherwise provided below, each Participant's Accounts will be distributed in full within thirty (30) days after becoming vested. The Company may, however, permit a Participant to defer receipt of his or her Account for an additional period of time established by the Company provided that such election is made at least twelve (12) months before the Participant is scheduled to become vested in his or her Account, barring an accelerated vesting event described in Sections 6.01(1) or (2). In the event a Participant elects to defer receipt of his or her Account in accordance with the preceding sentence, the Account will be distributed within thirty (30) days of the end of the deferral period, except as may otherwise be required by Section 12.01 of this Plan. Any Death Benefit under this Plan shall be payable to the beneficiary or beneficiaries most recently designated by a Participant in accordance with Section 11.02 below.

7.02 Form of Distribution. The Participant's Company Cash Account and Stock Account will be distributed in cash. The value of a Participant's Stock Account shall be determined based on the average closing stock price for the Company's common stock as indicated on the NYSE for the ten (10) consecutive trading days prior to the valuation date.

Article VIII

Source of Payments of Deferred Compensation

The Plan is a non-qualified, unfunded, unsecured, deferred compensation plan. Therefore, all benefits owing under the Plan shall be paid out of the Company's general corporate funds, which are subject to the claims of creditors. Neither the Participant nor any Beneficiary shall have any right, title, or interest whatever, or any claim, preferred or otherwise, in or to any particular asset of the Company as a result of participation in this Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust or fiduciary relationship of any kind between the Company and a Participant or any other person. Neither a Participant nor a Beneficiary of a Participant shall acquire any interest greater than that of an unsecured creditor in any assets of the Company.

Article IX

Valuation of Accounts

9.01 Participants' Accounts. The Administrative Committee shall establish and maintain a Company Cash Account and Stock Account for each Participant. Each Account shall reflect the credits and charges allocable thereto in accordance with the Plan. The Administrative Committee shall maintain records which will adequately disclose at all times the state of each separate Account hereunder. The books, forms and methods of accounting shall be entirely subject to the supervision of the Administrative Committee.

9.02 Periodic Determination of Participants' Accounts.

9.02(1) Allocation of Net Earnings and Adjustments in Value of the Accounts. The net earnings or losses of the Accounts under the Plan for a particular Valuation Period shall be determined on the basis of the earnings for such Valuation Period. Participants will be credited with earnings or losses on their Company Cash Account in amounts equal to the earnings or losses on a Model Portfolio as established by the Company. The value of a Participant's Stock Account shall be determined based on the closing stock price for the Company's common stock as indicated on the NYSE for the last trading day on or immediately prior to the valuation date.

9.02(2) Computations. All of the computations required to be made under the provisions of Article IX, when made, shall be conclusive with respect thereto and shall be binding upon all the Participants, Beneficiaries, and all other persons.

Article X

Disability Benefits

10.01 Disability Benefits. If a Participant suffers a Disability, such Participant shall remain an Eligible Employee and a Participant for all purposes under the Plan, including receipt of future Company Cash Allocations and Stock Awards. Payments to a Participant who has suffered a Disability shall be made at the time and in the manner provided in Article VII hereof.

10.02 Determination of Disability. The Administrative Committee shall determine whether a Participant has suffered a Disability based upon proof thereof which the Participant must provide to the Administrative Committee, and its determination in that respect is binding upon the Participant.

Article XI Death Benefits

11.01 Death Benefits. Upon the death of a Participant while in the employ of an Employer, his or her Beneficiary, determined in accordance with Section 11.02 hereof, shall receive the full amount credited to his or her Company Cash Account and Stock Account valued as of the Valuation Date coinciding with or immediately preceding the date on which the Participant dies. The Administrative Committee may require proper proof of death.

Payments resulting from the death of a Participant shall be made at the time and in the manner provided in Article VII hereof.

11.02 Designation of Beneficiaries. Each Participant may designate a Beneficiary or Beneficiaries, and contingent Beneficiary or Beneficiaries, if desired, to receive his or her interest hereunder in the event of his or her death, but the designation of a Beneficiary shall not be effective for any purpose unless and until it has been filed with the Administrative Committee on the form provided therefor. If the deceased Participant failed to name a Beneficiary in the manner herein prescribed, or the Beneficiary or Beneficiaries so named predecease the Participant, the amount, if any, which is payable hereunder in respect of such deceased Participant shall be paid to the legal representative or representatives of the estate of the deceased Participant. Any payment made to any person pursuant to the power and discretion conferred upon the Administrative Committee by the preceding sentence shall operate as a complete discharge of all obligations under the Plan in respect of such deceased Participant and shall not be subject to review by anyone, but shall be final, binding and conclusive on all persons ever interested hereunder. A Participant may from time to time change any Beneficiary previously designated by him or her without notice to such Beneficiary, under such rules and regulations as the Administrative Committee may from time to time promulgate, but the last Beneficiary designation filed with the Administrative Committee shall control.

Article XII Employment Termination Benefits

12.01 Termination Benefits. In the event a Participant voluntarily terminates his or her employment, or is Terminated For-Cause by an Employer, at any time prior to the date he or she becomes vested in his or her Account, no benefits will be paid to the Participant or any Beneficiary under this Plan. Upon the termination of employment of a Participant for any reason at any time following the date the Participant became vested in his or her Account, the Participant shall be entitled to a distribution of his or her Account in full with thirty (30) days of the termination date.

Article XIII Miscellaneous Provisions Respecting Participants

13.01 Participants to Furnish Required Information.

13.01(1) Each Participant shall furnish to the Administrative Committee such information as the Administrative Committee considers necessary or desirable for purposes of administering the Plan, and the provisions of the Plan respecting any payments hereunder are conditional upon the Participant's furnishing promptly such true, full and complete information as the Administrative Committee may reasonably request.

13.01(2) Any notice or information which according to the terms of the Plan or the rules of the Administrative Committee must be filed with the Administrative Committee, shall be deemed so filed if addressed and either delivered in person or mailed, postage fully prepaid, to the Administrative Committee. The Administrative Committee may, in its sole discretion, modify or waive any specified notice requirement;

provided, however, that such modification or waiver must be administratively feasible, must be in the best interest of the Participant, and must be made on the basis of rules of the Administrative Committee that are applied uniformly to all Participants.

13.02 Restrictions on Assignment. The benefits provided hereunder are intended for the personal security of persons entitled to payment under the Plan, and are not subject in any manner to the debts or other obligations of the persons to whom they are payable. The interest of a Participant or such Participant's Beneficiary or Beneficiaries may not be sold, transferred, assigned or encumbered in any manner, either voluntarily or involuntarily, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be null and void; neither shall any benefits hereunder be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person to whom such benefits or funds are payable, nor shall they be subject to garnishment, attachment, or other legal or equitable process nor shall they be an asset in bankruptcy. All of the provisions of this Section 13.02, however, are subject to Article VII, and to withholding of any applicable taxes.

13.03 Participants' Rights. Establishment of the Plan shall not be construed as giving any Participant the right to be retained in the Employers' service or employ, and nothing contained herein shall be construed in any way to limit or restrict the right of any Employer to discharge any employee regardless of whether such employee is a Participant or to change such employee's position or the basis or amount of such employee's compensation. Establishment of the Plan shall not give any Participant the right to receive any benefits not specifically provided by the Plan. A Participant shall not have any interest in the amounts credited to his Accounts until such Accounts are vested in accordance with the Plan. All amounts credited to Accounts for a Participant under the Plan shall remain the sole property of the Employer, subject to the claims of its general creditors and available for its use. With respect to amounts credited to an Account of a Participant, the Participant is merely a general creditor of the Employer; and the obligation of the Employer hereunder is purely contractual and shall not be secured in any way.

13.04 Address for Mailing of Benefits. Each Participant entitled to benefits hereunder shall file with the Administrative Committee from time to time in writing such Participant's post office address and each change of address. Any check representing payment hereunder and any communication addressed to a Participant, an Employee or Beneficiary, at such person's last address filed with the Administrative Committee, or if no such address has been filed, then at such person's last address as indicated on the records of an Employer, shall be deemed to have been delivered to such person on the date on which such check or communication is deposited, postage prepaid, in the United States mail.

13.05 Unclaimed Account Procedure. The Administrative Committee shall not be obliged to search for, or ascertain the whereabouts of any Participant or Beneficiary. The Administrative Committee, by certified or registered mail addressed to such Participant's or Beneficiary's last known address, shall notify the Participant or Beneficiary that such Participant or Beneficiary is entitled to a distribution under this Plan.

Article XIV Administration of the Plan

14.01 Appointment of Administrative Committee. The administration of the Plan will be the responsibility of the Administrative Committee and shall consist of one (1) or more members. For the Chief Executive Officer, the Administrative Committee will be the Compensation and Benefits Committee of the Board of Directors of the Company; for all other Participants of this Plan, the Administrative Committee will be the Chief Executive Officer of the Company or such other person(s) as shall be appointed by the Compensation and Benefits Committee of the Board of Directors of the Company. The Administrative Committee shall have the sole power, duty and responsibility for directing the administration of the Plan in accordance with its provisions.

14.02 Compensated Expenses of the Administrative Committee. The members of the Administrative Committee shall serve without compensation for their services as such, but the reasonable and necessary expenses of the Administrative Committee shall be reimbursed by the Company.

14.03 Secretary and Agents of the Administrative Committee. The Administrative Committee may appoint a Secretary who may, but need not, be a member of the Administrative Committee, and may employ such officers and employees of the Company and such agents and such clerical and other administrative personnel as reasonably may be required for the purpose of administering the Plan. Such administrative personnel shall carry out the duties and responsibilities assigned to them by the Administrative Committee.

14.04 Actions of Administrative Committee.

14.04(1) A majority of the members of the Administrative Committee shall constitute a quorum for the transaction of business, and shall have full power to act hereunder. Action by the Administrative Committee shall be official if approved by a vote of a majority of the members present at any official meeting. The Administrative Committee may, without a meeting, authorize or approve any action by written instrument signed by a majority of all of the members. Any written memorandum signed by the Chief Executive Officer of the Company, or any other member of the Administrative Committee, or by any other person duly authorized by the Administrative Committee to act, in each case when acting within the authority granted by the Plan, in respect of the subject matter of the memorandum, shall have the same force and effect as a formal resolution adopted in open meeting.

14.04(2) A member of the Administrative Committee may not vote, in his or her capacity as an Administrative Committee member, or decide upon any matter relating solely to him or her or vote on any case in which his or her individual right or claim to any benefit under the Plan is specifically involved.

14.04(3) The Administrative Committee shall maintain written records of its actions, and as long as such written records are maintained, members may participate and hold a meeting of the Administrative Committee by means of conference telephone or similar communications equipment which permits all persons participating in the meeting to hear each other. Participation in such a meeting constitutes presence in person at such meeting.

14.05 Authority of Administrative Committee. The Administrative Committee is authorized to take such actions as may be necessary to carry out the provisions and purposes of the Plan and shall have the authority to control and manage the operation and administration of the Plan. In order to effectuate the purposes of the Plan, the Administrative Committee shall have the power and discretion to construe and interpret the Plan, to supply any omissions therein, to reconcile and correct any errors or inconsistencies, to decide any questions in the administration and application of the Plan, and to make equitable adjustments for any mistakes or errors made in the application of the Plan. All such actions or determinations made by the Administrative Committee, and the application of rules and regulations to a particular case or issue by the Administrative Committee shall not be subject to review by anyone, but shall be final, binding and conclusive on all persons ever interested hereunder. In construing the Plan and in exercising its power under provisions requiring Administrative Committee approval, the Administrative Committee shall attempt to ascertain the purpose of the provisions in questions and when such purpose is known or reasonably ascertainable, such purpose shall be given effect to the extent feasible. Likewise, the Administrative Committee is authorized to determine all questions with respect to the individual rights of all Participants and then- Beneficiaries under this Plan, including, but not limited to, all issues with respect to eligibility, valuation of Accounts, and level of Company contributions subsequent to the first Plan Year.

14.06 General Administrative Powers. The Administrative Committee shall have authority to make, and from time to time revise, rules and regulations for the administration of the Plan.

Article XV Amendment of the Plan

The Company reserves the right to amend the Plan at any time and from time to time provided that a copy of any such amendment is delivered to all Participants and/or Beneficiaries following the adoption of the amendment. However, no amendment or modification shall, without the consent of a Participant or Beneficiary, adversely affect such Participant or Beneficiary' s rights with respect to amounts previously credited to his or her Accounts under the Plan at the time of such amendment.

Article XVI Termination of Plan

The Company reserves the right to terminate the Plan at any time; however, no termination shall, without the consent of a Participant or Beneficiary, adversely affect such Participant' s or Beneficiary' s rights with respect to amounts credited to his or her Accounts under the Plan up to the time of termination. Upon such termination of the Plan, barring the Change-of-Control provision being invoked as defined in Section 2.06, or unless another Plan of comparable benefit is established by the Company prior to the end of the three (3) year term to which the Participant can roll over his or her Accounts, all Participants, at the discretion of the Administrative Committee shall be entitled to receive the amount then credited to their respective Accounts in a lump-sum distribution of the Company Cash Account and their Stock Account.

Article XVII
Miscellaneous

17.01 Withholding. The Administrative Committee shall determine whether or not federal and state income tax withholding is required with respect to any distribution hereunder. Notwithstanding any other provision of this Plan to the contrary, all rights and benefits of a Participant or Beneficiary are subject to withholding of any tax required by law to be withheld.

17.02 Article and Section Headings. The titles or headings of the respective Articles and Sections in this Plan are inserted merely for convenience and shall be given no legal effect.

17.03 Unfunded Status of the Plan. Any and all payments made to the Participant pursuant to the Plan shall be made only from the general assets of the Company. All Accounts under the Plan shall be for bookkeeping purposes only and shall not represent a claim against specific assets of the Company.

17.04 Applicable Law. THIS PLAN SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MARYLAND TO THE EXTENT NOT PREEMPTED BY APPLICABLE FEDERAL LAW.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officers as of this 1st day of July, 2003.

COVENTRY HEALTH CARE, INC.

By: /s/ Allen F. Wise

Title: President and Chief Executive Officer
