FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2000-05-12** | Period of Report: **2000-03-31**
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FILER

COVENTRY HEALTH CARE INC

CIK:**1054833**| IRS No.: **522073000** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-29676** | Film No.: **627658**
SIC: **6324** Hospital & medical service plans

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2000

OR

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

For the transition period from ______________ to _________________

COMMISSION FILE NUMBER 0-19147

COVENTRY HEALTH CARE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	52-2073000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification 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 [X] NO [ ]

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

Class	Outstanding at April 30, 2000
Common Stock $.01 Par Value	58,558,772

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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)

<TABLE>
<CAPTION>

	March 31, 2000 (unaudited)	December 31, 1999
ASSETS		
Cash and cash equivalents	$ 240,095	$ 240,076
Short-term investments	72,073	88,365
Accounts receivable, net	61,157	53,173
Other receivables, net	46,024	42,304
Deferred income taxes	56,192	56,157
Other current assets	6,158	3,330
Total current assets	481,699	483,405
Long-term investments	313,696	286,162
Property and equipment, net	37,374	37,863
Goodwill and intangible assets, net	267,911	268,289
Other long-term assets	5,899	5,864
Total assets	$ 1,106,579	$ 1,081,583
LIABILITIES AND STOCKHOLDERS' EQUITY		
Medical claim liabilities	$ 315,793	$ 308,095
Other medical liabilities	59,748	54,691
Accounts payable and other accrued liabilities	109,112	110,186
Deferred revenue	56,528	49,914
Total current liabilities	541,181	522,886
Long-term liabilities	31,261	31,217

Total liabilities	572,442	554,103
Redeemable convertible preferred stock, $.01 par value; Series A, 6,000,000 shares authorized; 4,709,545 shares issued and outstanding in 2000 and 1999	47,095	47,095
Stockholders' equity:		
Common stock, $.01 par value; 200,000,000 shares authorized; 59,727,898 shares issued and 58,529,185 outstanding in 2000; and 59,643,753 shares issued and 59,148,797 outstanding in 1999	597	596
Treasury stock, at cost, 1,198,713 and 494,956 shares in 2000 and 1999, respectively	(10,765)	(5,380)
Additional paid-in capital	481,541	480,792
Accumulated other comprehensive loss	(3,230)	(2,780)
Retained earnings	18,899	7,157
Total stockholders' equity	487,042	480,385
Total liabilities and stockholders' equity	$ 1,106,579	$ 1,081,583

</TABLE>

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

<TABLE>
<CAPTION>

	Quarters Ended March 31,	
	2000	1999
<S>	<C>	<C>
Operating revenues:		
Managed care premiums	$606,337	$507,678
Management services	11,073	20,170
Total operating revenues	617,410	527,848
Operating expenses:		
Health benefits	517,972	433,641
Selling, general and administrative	81,485	78,530
Depreciation and amortization	6,803	6,994
Total operating expenses	606,260	519,165
Operating earnings	11,150	8,683
Other income, net	9,058	7,015
Interest expense	(61)	(1,007)
Earnings before income taxes	20,147	14,691
Provision for income taxes	8,405	6,398
Net earnings	$ 11,742	$ 8,293

Net earnings per share:		
Basic	$ 0.20	$ 0.14
Diluted	$ 0.18	$ 0.14

</TABLE>

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	Quarters Ended March 31, 2000	1999
	<S>	<C>
Net cash from operating activities	$ 19,133	$ (46,854)
Cash flows from investing activities:		
Capital expenditures, net	(3,617)	(2,921)
Sales of investments	86,133	50,641
Purchases of investments	(92,393)	(26,252)
Payments for acquisitions, net of cash acquired	(4,405)	-
Net cash from investing activities	(14,282)	21,468
Cash flows from financing activities:		
Payments on long-term debt and notes payable	-	(48)
Net payments for repurchase and issuance of stock	(4,832)	46
Net cash from financing activities	(4,832)	(2)
Net increase (decrease) in cash and cash equivalents	19	(25,388)
Cash and cash equivalents at beginning of period	240,076	408,823
Cash and cash equivalents at end of period	$ 240,095	$ 383,435
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ 18
Income taxes paid, net	$ 543	$ 6,000

</TABLE>

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Coventry Health Care, Inc. and Subsidiaries ("Coventry" or "the Company") contained in this report are unaudited but reflect all adjustments, consisting of normal recurring adjustments which, in the opinion of management, are necessary for the fair presentation of the results of the interim periods reflected. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission (the "SEC"). The results of operations for the interim periods reported herein are not necessarily indicative of results to be expected for the full year. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 1999, filed with the SEC on March 29, 2000.

2. SIGNIFICANT ACCOUNTING POLICIES

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of the derivatives would be accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. In June 1999, the FASB also issued SFAS No. 137, which defers the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. The Company does not believe that adoption of SFAS No. 133 (as amended by SFAS No. 137) will have a material effect on its future results of operations.

3. ACQUISITIONS AND DISPOSITIONS

Effective October 1, 1999, the Company acquired Carelink Health Plans ("Carelink"), the managed care subsidiary of Camcare, Inc., for a total purchase price of approximately $8.4 million including transaction costs of approximately $0.4 million. The acquisition was accounted for using the purchase method of accounting, and, accordingly, the operating results of Carelink have been included in the Company's consolidated financial statements since the date of the acquisition. The purchase price for Carelink was allocated to the assets, including the identifiable intangible assets, and liabilities based on estimated fair values. The $4.7 million excess of purchase price over the net identifiable assets acquired was allocated to goodwill, which is amortized over a useful life of 25 years. The final purchase price may be adjusted subject to the results of the final determination of the balance sheet of Carelink as of October 1, 1999.

On November 1, 1999, the Company's subsidiary, Coventry Health Care of the Carolinas, Inc., acquired Kaiser Foundation Health Plan of North Carolina's commercial membership in Charlotte, North Carolina. The total purchase price was approximately $1.8 million including transaction costs.

In the fourth quarter of 1999, the Company notified the Indiana Department of Insurance of its intention to close its subsidiary, Coventry Health Care of Indiana, Inc. As of March 31, 2000, the health plan had approximately 10,700 members throughout the state. As a result of the costs associated with exiting the Indiana market, the Company recorded a reserve of $2.0 million in the fourth quarter of 1999. The Company plans to close the health plan by the end of the fourth quarter 2000 and has expended approximately $0.3 million of the reserve as of March 31, 2000.

Effective February 1, 2000, the Company completed its acquisition of The Anthem Company's West Virginia managed care subsidiary, PrimeONE, Inc., ("PrimeONE"), for a purchase price of $1.25 million plus statutory net worth plus transaction costs for a total approximate purchase price of $3.9 million. The acquisition was accounted for using the purchase method of accounting, and, accordingly, the operating results of PrimeONE have been included in the Company's consolidated financial statements since the date of the acquisition. The purchase price for PrimeONE was allocated to the assets, including the identifiable intangible assets, and liabilities based on estimated fair values. The $1.5 million excess of purchase price over the net identifiable assets acquired was allocated to goodwill, which is amortized over a useful life of 25 years. The acquisition expands the Company's West Virginia service area and brings its total membership in the state to over 107,000 members.

On February 3, 2000, Coventry completed the acquisition of Prudential Health Care Plan, Inc.'s 9,400 Medicaid members in St. Louis, Missouri at approximately $100 per member based on the members that ultimately transfer to the Company. Transferred membership will be determined after a transition period. The acquisition brings the Company's total Medicaid membership in St. Louis to more than 112,000 members as of March 31, 2000.

4. CONVERTIBLE EXCHANGEABLE SUBORDINATED NOTES AND REDEEMABLE CONVERTIBLE PREFERRED STOCK

During the second and third quarters of 1999, the Company converted all the Convertible Exchangeable Senior Subordinated Notes held by Warburg, Pincus Ventures, L.P. and Franklin Capital Associates III, L.P. totaling $47.1 million, including accumulated interest, into 4,709,545 shares of Series A redeemable convertible preferred stock ("preferred stock") at a price of $10 per share. The preferred stock is subject to mandatory redemption at a price of $10 per share, plus accrued dividends, on May 15, 2002, 2003 and 2004 in an amount equal to one-third of the shares outstanding on the first redemption date, or such lesser number of shares as shall then be outstanding. The preferred stock is carried at its fair value, which equals both its redemption value and liquidation value as of March 31, 2000. The holders of the preferred stock shall be entitled to receive, when and as declared, dividends payable in additional shares of preferred stock, before any dividends shall be set apart for or paid to common stock. The preferred stock is convertible to common stock on a share for share basis and is callable by the Company if the market price of the Company's common stock exceeds certain agreed upon targets.

5. COMPREHENSIVE INCOME

Comprehensive income for the quarters ended March 31, 2000 and 1999 is as follows (in thousands):

<TABLE>
<CAPTION>

	Quarters Ended March 31, 2000	Quarters Ended March 31, 1999
<S>	<C>	<C>
Net earnings	$11,742	$8,293
Other comprehensive loss, net of tax:		
Net unrealized losses on securities, net of reclassification adjustment	(450)	(855)
Comprehensive income	$11,292	$7,438

</TABLE>

6. EARNINGS PER SHARE

Basic earnings per share ("EPS") are based on the weighted average number of common shares outstanding during the year. Diluted EPS, when applicable, assumes the conversion of convertible notes and the exercise of all options, warrants and redeemable convertible preferred stock using the treasury stock method. Net earnings are increased for the assumed elimination of interest expense on the convertible notes.

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

Quarter Ended March 31, 2000

	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$11,742	58,850	$0.20
Effect of dilutive securities:			
Options and warrants		255	
Redeemable convertible preferred stock		4,709	
Diluted EPS	$11,742	63,814	$0.18

Quarter Ended March 31, 1999

	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$8,293	58,851	$0.14
Effect of dilutive securities:			
Options and warrants		712	
Convertible notes		4,521	
Interest on convertible notes	516		
Diluted EPS	$8,809	64,084	$0.14

7. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 also requires that all public business enterprises report information about the revenues derived from the enterprise's products or services (or groups of similar products and services), about the countries in which the enterprise earns revenues and holds assets and about major customers regardless of whether that information is used in making operating decisions.

The Company has two reportable segments: commercial products and government products. The products are provided to a cross section of employer groups and individuals through the Company's health plans in the Midwest, Mid-Atlantic, and Southeastern United States. Commercial products include health maintenance organization ("HMO"), 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.

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

<TABLE>
<CAPTION>

	Quarter Ended March 31, 2000 (in thousands) Commercial	Government Programs	Total
<S>	<C>	<C>	<C>
Revenues	$439,046	$167,291	$606,337
Gross Margin	70,812	17,553	88,365

</TABLE>

<TABLE>
<CAPTION>

	Quarter Ended March 31, 1999 (in thousands) Commercial	Government Programs	Total
<S>	<C>	<C>	<C>
Revenues	$384,992	$122,686	$507,678
Gross Margin	61,453	12,584	74,037

</TABLE>

Following are reconciliations of reportable segment information to financial statement amounts:

<TABLE>
<CAPTION>

	Quarters Ended March 31, 2000	1999
<S>	<C>	<C>
Revenues		
Reportable segments	$606,337	$507,678
Management services	11,073	20,170
Total revenues	$617,410	$527,848
Earnings before income taxes:		
Gross margin from reportable segments	$88,365	$74,037
Other revenues	11,073	20,170
Selling, general and administrative	(81,485)	(78,530)
Depreciation and amortization	(6,803)	(6,994)
Other income, net	9,058	7,015
Interest expense	(61)	(1,007)
Earnings before income taxes	$20,147	$14,691

</TABLE>

8. AHERF CHARGE

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, the Company and certain affiliated hospitals of Allegheny Health, Education and Research Foundation ("AHERF") were involved in litigation during 1998 and 1999 to determine if the Company, as a consequence of the bankruptcy filed by AHERF, had the financial responsibility for medical services provided to the Company's members by the hospitals.

Consequently, the Company, which is ultimately responsible for medical costs delivered to its members, notwithstanding the global capitation agreement, recorded a charge of $55.0 million in the second quarter of 1998 to establish a reserve for, among other things, the medical costs incurred by its members under the AHERF global capitation agreement at the time of the bankruptcy filing.

As a result of a settlement reached in 1999, the Company released $6.3 million of the reserve, which was reflected as a gain in the fourth quarter and year-end 1999 results. The balance of the reserve represents the Company's remaining obligations under the settlement and will be expended through August 2007.

9. LEGAL PROCEEDINGS

In the normal course of business, the Company has been named as a defendant in various legal actions seeking payments for claims denied by the Company, medical malpractice, and other monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through March 31, 2000 may result in the assertion of additional claims. With respect to medical malpractice, the Company carries professional malpractice and general liability insurance for each of its operations on a claims-made basis with varying deductibles for which the Company maintains reserves. In the opinion of management, the outcome of these actions should not have a material adverse effect on the financial position or results of operations of the Company.

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

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

The Company is currently in dispute with Unity Health Network and with BJC Health System as described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Between the filing of the Company's Form 10-K on March 29, 2000 and the filing of this Form 10-Q, arbitration proceedings have begun with respect to BJC Health System, but there have been no material developments relating to the disputes.

10. SUBSEQUENT EVENT

On May 5, 2000, the Company announced that its two largest shareholders, The Principal Financial Group ("Principal Life") and E.M. Warburg, Pincus & Co., L.L.C. ("Warburg") have entered into a private transaction whereby Warburg will purchase 10 million shares of Coventry common stock from Principal Life for $10 per share. Principal Life includes Principal Life Insurance Company and Principal Health Care, Inc. Upon completion of the transaction, Warburg and Principal Life will own approximately 31% and 23%, respectively, of the Company's fully diluted common shares. This transaction is subject to regulatory approval.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
QUARTERS ENDED MARCH 31, 2000 AND 1999

GENERAL

Overview

Coventry Health Care, Inc. (together with its subsidiaries, the "Company", "Coventry", "we", "our", or "us"), successor-in-interest to Coventry Corporation, is a managed health care company operating health plans under the names Coventry Health Care, HealthAmerica, HealthAssurance, HealthCare USA, Group Health Plan, Southern Health, SouthCare and Carelink Health Plans. The Company provides a full range of managed care products and services including health maintenance organization ("HMO"), point-of-service ("POS") and preferred provider organization ("PPO") products. The Company also administers self-insured plans for large employer groups. Coventry was incorporated under the laws of the state of Delaware on December 17, 1997.

As of March 31, 2000, Coventry had 1,267,111 members for whom it assumes underwriting risk ("risk members") and 240,301 members of self-insured employers for whom it provides management services, but does not assume underwriting risk ("non-risk members") in continuing operations. The following tables show the total number of members as of March 31, 2000 and 1999 and the percentage change in membership between those dates:

<TABLE>
<CAPTION>

	March 31, 2000	March 31, 1999	Percent Change
<S>	<C>	<C>	<C>
Risk membership in continuing operations:			
Carolinas	38,972	21,279	83.1%
Delaware	74,414	60,275	23.5%
Georgia	29,217	23,641	23.6%
Iowa	75,155	78,609	(4.4%)
Kansas City	77,068	57,527	34.0%
Louisiana	40,649	38,079	6.7%
Nebraska	25,898	27,175	(4.7%)
Pennsylvania	367,325	378,201	(2.9%)
Richmond	55,402	47,733	16.1%
St. Louis	346,610	325,044	6.6%
West Virginia	93,990	23,505	299.9%
Wichita	42,411	39,980	6.1%
Total risk membership	1,267,111	1,121,048	13.0%
Total non-risk membership	240,301	246,119	(2.4%)
Total membership in continuing operations	1,507,412	1,367,167	10.3%
Total membership in non-continuing operations:			
Indiana	10,703	28,190	(62.0%)
Total membership	1,518,115	1,395,357	8.8%

</TABLE>

<TABLE>
<CAPTION>

<S>	March 31, 2000 <C>	1999 <C>	Percent Change <C>
Risk membership in continuing operations:			
Commercial	1,023,106	949,819	7.7%
Governmental Programs	244,005	171,229	42.5%
Total risk membership in continuing operations	1,267,111	1,121,048	13.0%
Total non-risk membership	240,301	246,119	(2.4%)
Total membership in continuing operations	1,507,412	1,367,167	10.3%
Total membership in non-continuing operations:			
Indiana	10,703	28,190	(62.0%)
Total membership	1,518,115	1,395,357	8.8%

</TABLE>

The Company's operating expenses are primarily medical costs, including medical claims under contractual relationships with a wide variety of providers, and capitation payments. Medical claims expense also includes an estimate of claims incurred but not reported ("IBNR"). The Company currently believes that the estimates for IBNR liabilities relating to its businesses are adequate in order to satisfy its ultimate claims liability with respect thereto. In determining the Company's medical claims liabilities, the Company employs standard actuarial reserve methods (specific to the plans' membership, product characteristics, geographic territories and provider network) that consider utilization frequency and unit costs of inpatient, outpatient, pharmacy and other medical costs, as well as claim payment backlogs and the changing timing of provider reimbursement practices. Underwriting, finance, accounting, and other appropriate plan and corporate personnel review calculated reserves, and judgments are then made as to the necessity for reserves in addition to the calculated amounts. Changes in assumptions for medical costs caused by changes in actual experience, changes in the delivery system, changes in pricing due to ancillary capitation and fluctuations in the claims backlog could cause these estimates to change in the near term. The Company periodically monitors and reviews its IBNR reserves, and as actual settlements are made or accruals adjusted, differences are reflected in current operations.

Acquisitions and Dispositions

In the fourth quarter of 1999, Coventry notified the Indiana Department of Insurance of its intention to close its subsidiary, Coventry Health Care of Indiana, Inc. As of March 31, 2000, the health plan had approximately 10,700 members throughout the state. As a result of the costs associated with exiting the Indiana market, Coventry recorded a reserve of $2.0 million in the fourth quarter of 1999. Coventry has expended approximately $0.3 million of the reserve as of March 31, 2000 and expects to close the plan by the end of the fourth quarter 2000.

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

After the merger on April 1, 1998, between Coventry and Principal Health Care, Inc. ("PHC"), the PHC plans continued to use the Principal brand name under the terms of the License Agreement as amended, between the parties, even though the Plans were no longer subsidiaries of Principal Life. In the fourth quarter of 1999, the Company's PHC subsidiaries changed the word Principal in their names to Coventry. All aspects of the health plans' operations, such as member coverage and access, remain unchanged.

Effective October 1, 1999, the Company acquired Carelink Health Plans ("Carelink"), the managed care subsidiary of Camcare, Inc., for a total purchase price of approximately $8.4 million including transaction costs of approximately $0.4 million. The acquisition was accounted for using the purchase method of accounting, and, accordingly, the operating results of Carelink have been included in the Company's consolidated financial

statements since October 1, 1999, the date of the acquisition. The purchase price for Carelink was allocated to the assets, including the identifiable intangible assets, and liabilities based on estimated fair values. The $4.7 million excess of purchase price over the net identifiable assets acquired was allocated to goodwill, which is being amortized over a useful life of 25 years. The final purchase price may be adjusted subject to the results of the final determination of the balance sheet of Carelink as of October 1, 1999. Carelink is the market leader and has a broad provider network in West Virginia with a service area covering the majority of the state's population.

On November 1, 1999, the Company's subsidiary, Coventry Health Care of the Carolinas, Inc., acquired Kaiser Foundation Health Plan of North Carolina, Inc.'s ("KFHPNC") commercial membership in Charlotte, North Carolina. The total purchase price was approximately $1.8 million including transaction costs. The transaction more than doubles Coventry's membership in the Charlotte market.

Effective February 1, 2000, the Company completed its acquisition of The Anthem Company's West Virginia managed care subsidiary, PrimeONE, Inc., ("PrimeONE"), for a purchase price of $1.25 million plus statutory net worth and plus transaction costs for a total approximate purchase price of $3.9 million. The acquisition was accounted for using the purchase method of accounting, and, accordingly, the operating results of PrimeONE have been included in the Company's consolidated financial statements since February 1, 2000, the date of the acquisition. The purchase price for PrimeONE was allocated to the assets, including the identifiable intangible assets, and liabilities based on estimated fair values. The $1.5 million excess of purchase price over the net identifiable assets acquired was allocated to goodwill, which is amortized over a useful life of 25 years. The acquisition expands Coventry's West Virginia service area and brings its total membership in the state to over 107,000 members. This transaction, combined with the Carelink acquisition, solidifies Coventry's market leadership position in West Virginia.

On February 3, 2000, Coventry completed the acquisition of Prudential Health Care Plan, Inc.'s 9,400 Medicaid members in St. Louis, Missouri at approximately $100 per member based on the members that ultimately transfer to the Company. Transferred membership will be determined after a transition period. The acquisition brings Coventry's total Medicaid membership in St. Louis to more than 112,000 members, expanding Coventry's leading position in the market.

Joint Venture

The Company announced in the first quarter of 2000 that it entered into an agreement with E.M. Warburg, Pincus & Co., L.L.C. ("Warburg Pincus") and Frederick C. Dunlap to fund a company that will seek to invest in emerging companies that are developing technology applications for the health care industry. After an initial working capital investment provided by Warburg Pincus, the joint venture investments will be funded 80.1% by Warburg Pincus and Frederick C. Dunlap and 19.9% by Coventry. The Company has the ability to decrease the 19.9% contribution at our discretion.

Legal Proceedings

In the normal course of business, the Company has been named as a defendant in various legal actions seeking payments for claims denied by the Company, medical malpractice, and other monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through March 31, 2000 may result in the assertion of additional claims. With respect to medical malpractice, the Company carries professional malpractice and general liability insurance for each of its operations on a claims-made basis for which the Company maintains reserves. In the opinion of management, the outcome of these actions should not have a material adverse effect on the financial position or results of operations of the Company.

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

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

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, the Company and certain affiliated hospitals of Allegheny Health, Education and Research Foundation ("AHERF") were involved in litigation during 1998 and 1999 to determine if the Company, as a consequence of the bankruptcy filed by AHERF, had the financial responsibility for medical services provided to the Company's members by the hospitals.

Consequently, the Company, which is ultimately responsible for medical costs delivered to its members, notwithstanding the global capitation agreement, recorded a charge of $55.0 million in the second quarter of 1998 to establish a reserve for, among other things, the medical costs incurred by its members under the AHERF global capitation agreement at the time of the bankruptcy filing.

As a result of a settlement reached in 1999, the Company released $6.3 million of the reserve, which was reflected, as a gain in the fourth quarter and year-end 1999 results. The balance of the reserve represents the Company's remaining obligations under the settlement and will be expended through August 2007.

The Company is currently in dispute with Unity Health Network and with BJC Health System as described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Between the filing of the Company's Form 10-K on March 29, 2000 and the filing of this Form 10-Q, arbitration proceedings have begun with respect to BJC Health System, but there have been no material developments relating to the disputes.

RESULTS OF OPERATIONS

QUARTERS ENDED MARCH 31, 2000 AND 1999

Total membership increased approximately 140,000 in continuing operations compared to the first quarter of 1999. Commercial membership increased 56,208, or 5.8% from the first quarter of 1999 primarily due to the acquisitions of Carelink and PrimeONE and the membership purchase of KFHPNC in North Carolina. The government program membership increased from the first quarter of 1999 through recently expanded programs and acquisitions. Membership decreased in a small number of markets due to Coventry's efforts to adhere to a strict pricing discipline. Coventry will continue to be diligent in attempting to obtain adequate premium increases and expects premium rates to increase 10% to 12% for renewals in the second quarter of 2000.

Managed care premiums increased by $98.7 million, or 19.4%, from the prior year's first quarter. The increase in primarily attributable to the additional revenue associated with the acquisitions of Carelink and the KFHPNC membership in the fourth quarter of 1999 and PrimeONE and the Prudential membership in the first quarter of 2000. Also contributing to the increase in premium revenue were commercial rate increases in excess of 10.5% on first quarter renewals. Total premium yields for the first quarter of 2000 increased by an average of $12.87, or 8.7%, from the prior year's first quarter on a per member per month ("PMPM") basis, to $160.44 PMPM, primarily as a result of the rate increases.

Management services revenue decreased $9.1 million, or 45.1%, from the prior year's first quarter primarily as a result of the expiration of the PPO Access, Marketing Services and Management Services Agreements with Principal Life. The expiration of these agreements was anticipated and was offset by reduced SG&A expenses as a percentage of revenue, premium rate increases and solid acquisitions.

Health benefits expense increased $84.3 million, or 19.4%, from the prior year's first quarter which is a direct result of acquisitions as evidenced by a medical loss ratio that is consistent with the prior year's first quarter.

Coventry continues to focus on ways to control its medical costs, including implementation of best practices to reduce inpatient days and improvement of the overall quality and level of care. Coventry is also continuously

monitoring and renegotiating with its provider networks to improve reimbursement rates and improve member access to providers.

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

SG&A expense increased $3.0 million, or 3.8%, from the prior year's first quarter. SG&A expense, as a percent of revenue, decreased to 13.2% for the quarter ended March 31, 2000, from 14.9% in the prior year first quarter. The decrease in SG&A expense, as a percent of revenue, was attributable to solid acquisitions, which required minimal incremental SG&A expense. The decrease is also attributable to Coventry's consolidation of eighteen service centers into three regional service centers in an effort to control costs and improve customer service. All consolidation activities are expected to be fully implemented by the end of the fourth quarter of 2000.

Depreciation and amortization decreased $0.2 million, or 2.7%, compared to the prior year's first quarter primarily due to the reduction of intangible assets resulting from cash received in exchange for waiving the Renewal Rights and Coinsurance Agreements with Principal Life.

Other income, net of interest expense, increased $3.0 million, or 49.8%, from the prior year's first quarter. The increase in other income was primarily due to the reduction of interest expense from the conversion of debt to preferred stock and increased investment income.

Earnings from operations increased $2.5 million, or 28.4% from the prior year's first quarter. The increase in earnings from operations is attributable to various factors mentioned above: rate increases, SG&A reductions, acquisitions, and elimination of interest on debt.

Coventry's net earnings were $11.7 million compared to net earnings of $8.3 million for the first quarter of 1999. Net earnings per diluted share were $0.18 for the quarter ended March 31, 2000 compared to a net earnings per diluted share of $0.14 for the quarter ended March 31, 1999. The weighted average common shares outstanding were 63,814,306 and 64,083,708 on a diluted basis for the quarters ended March 31, 2000 and 1999, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's total cash and investments, excluding deposits of $21.2 million restricted under state regulations, increased $14.9 million to $604.7 million at March 31, 2000 from $589.8 million at December 31, 1999. This increase was attributable to the cash inflow from operating activities reduced primarily by capital expenditures of $3.6 million and stock repurchases of $5.4 million.

The Company's investment guidelines emphasize investment grade fixed income instruments in order to provide short-term liquidity and minimize the risk to principal. The Company believes that since its long-term investments are available-for-sale, the amount of such investments should be added to current assets when assessing the Company's working capital and liquidity; on such basis, current assets plus long-term investments less short-term liabilities increased to $254.2 million at March 31, 2000 from $246.7 million at December 31, 1999.

The Company's HMOs and its insurance company subsidiary, Coventry Health and Life Insurance Company ("CHLIC"), are required by state regulatory agencies to maintain minimum surplus balances, thereby limiting the dividends the Company may receive from its HMOs and its insurance company subsidiary. After considering these statutory reserve requirements, the Company's HMO subsidiaries had surplus in excess of statutory requirements of approximately $100.9 million and $102.6 million at March 31, 2000 and December 31, 1999, respectively. CHLIC had surplus in excess of statutory requirements of approximately $14.9 million and $15.0 million at March 31, 2000 and December 31, 1999, respectively.

Excluding funds held by entities subject to regulation, the Company had cash and investments of approximately $54.9 million and $61.1 million at March 31, 2000 and December 31, 1999, respectively, which are available to pay inter-company balances to regulated subsidiaries and for general corporate purposes. The Company also has entered into agreements with certain of its regulated subsidiaries to provide additional capital if necessary to prevent the subsidiary's insolvency.

During the second and third quarters of 1999, the Company converted all the Convertible Exchangeable Senior Subordinated Notes held by Warburg, Pincus Ventures, L.P. ("Warburg Pincus") and Franklin Capital Associates III, L.P. totaling $47.1 million, including accumulated interest, into 4,709,545 shares of Series A redeemable convertible preferred stock ("preferred stock") at a price of $10 per share. The preferred stock is subject to mandatory redemption at a price of $10 per share, plus accrued dividends, on May 15, 2002, 2003 and 2004 in an amount equal to one-third of the shares outstanding on the first redemption date, or such lesser number of shares as shall then be outstanding. The preferred stock is carried at its fair value, which equals both its redemption value and liquidation value as of March 31, 2000. The holders of the preferred stock shall be entitled to receive, when and as declared, dividends payable in additional shares of preferred stock, before any dividends shall be set apart for or paid to common stock. The preferred stock is convertible to common stock on a share for share basis and is callable by the Company if the market price of the Company's common stock exceeds certain agreed upon targets.

Projected capital investments of approximately $15.0 million in year 2000 consist primarily of computer hardware, software and related equipment costs associated with the development and implementation of improved operational and communications systems. As of March 31, 2000 approximately $3.6 million has been spent.

The Company believes that cash flows generated from operations, cash on hand and investments, and excess funds in certain of its regulated subsidiaries will be sufficient to fund continuing operations through December 31, 2000.

SHARE REPURCHASES

As part of a program previously authorized by the Board of Directors, as of March 31, 2000, the Company purchased approximately 703,757 and 55,396 shares of its common stock in 2000 and 1999, respectively, for the treasury at an aggregate cost of $5.4 million and $0.4 million in 2000 and 1999, respectively. Stock repurchases may be made from time to time at prevailing prices in the open market, by block purchase or in private transactions. Coventry had approximately 63.8 million weighted average diluted shares of common stock outstanding as of March 31, 2000.

OTHER SHARE TRANSACTIONS

On May 5, 2000, the Company announced that its two largest shareholders, The Principal Financial Group ("Principal Life") and Warburg Pincus have entered into a private transaction whereby Warburg Pincus will purchase 10 million shares of Coventry common stock from Principal Life for $10 per share. Principal Life includes Principal Life Insurance Company and Principal Health Care, Inc. Upon completion of the transaction, Warburg Pincus and Principal Life will own approximately 31% and 23%, respectively, of Coventry's fully diluted common shares. This transaction is subject to regulatory approval.

YEAR 2000

The Company has been aware of the "Year 2000" issue and its potential to affect products and systems that were not designed to properly handle the transition between the twentieth and twenty-first centuries. The Company recognized the need to ensure that its business operations would not be adversely affected by the year 2000, and it implemented a Year 2000 readiness program to facilitate the necessary preparations. Through March 31, 2000, the Company incurred approximately $13.1 million in its Year 2000 assessment and remediation program, and it does not expect to incur significant further costs in this program. Prior to the end of 1999, the Company completed its

readiness assessment and its implementation of all plans for handling anticipated readiness risks. The Company's transition from 1999 to 2000 occurred without any major business disruption. With the transition into the Year 2000 complete, the Year 2000 issue has not had, and the Company believes it will not have, a material impact on the Company's business, financial condition or results of operations.

E-COMMERCE INITIATIVES

The Company is launching several e-commerce initiatives. Each initiative is intended to reach a segment of our core business customers: providers, brokers, employers and members, and will have a distinct e-commerce solution.

PROVIDER CHANNEL. In February 2000, the Company entered into a three-year agreement with Healtheon/WebMD, the first end-to-end Internet healthcare company connecting physicians and consumers to the entire healthcare industry. Initially, the Company will use Healtheon/WebMD's Internet services to manage the electronic submission and processing of eligibility determination, referrals and authorizations, claims submission, claim status, and reporting. Upon completion of the roll-out, Healtheon/WebMD will also provide administrative services to the providers in the Company's health plans' networks who have signed up for WebMD Practice. It is expected that this relationship will significantly improve service to our members and reduce administrative costs.

BROKER/EMPLOYER CHANNEL. In February 2000, the Company entered into a two-year agreement with Workscape, Inc. ("Workscape"), which specializes in the development of Internet solutions for the insurance industry. Workscape will focus on automating the full broker/small employer relationship, including enrolling customers, providing benefits information, generating customized proposals, registering agents, processing applications, underwriting risk, and calculating rates. The Company will initially implement this initiative in its Pittsburgh and Harrisburg, Pennsylvania markets, and then into its other markets.

MEMBER CHANNEL. In March 2000, the Company announced a one-year agreement with GeoAccess to implement GeoAccess' online healthcare directory technology. This technology makes information about health plan providers available to members. The online directories will be available in all the Company's health plans. ProviderLookup Online uses GeoAccess' proprietary distance-calculation technology, which provides precise results about the providers located closest to an individual's address. The Company's members will be able to search for providers by name, geographic proximity or specific criteria.

LEGISLATION AND REGULATION

Numerous proposals have been introduced in the United States Congress and various state legislatures relating to health care reform. Some proposals, if enacted, could among other things, restrict the Company's ability to raise prices and to contract independently with employers and providers. Certain reform proposals favor the growth of managed health care, while others would adversely affect managed care. Although the provisions of any legislation adopted at the state or federal level cannot be accurately predicted at this time, management of the Company believes that the ultimate outcome of currently proposed legislation would not have a material adverse effect on the Company and its results of operations in the short-term.

RISK FACTORS

The risks described below are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Further, the trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

HEALTH CARE COSTS MAY RISE FASTER THAN OUR ABILITY TO INCREASE OUR PREMIUM RATES, CAUSING OUR PROFIT MARGINS TO SHRINK WHICH MAY IN TURN REDUCE OUR NET INCOME AND ADVERSELY AFFECT THE VALUE OF YOUR INVESTMENT IN COVENTRY.

In the future, the costs of health care services and supplies that we provide to our membership may rise faster than our ability to increase premium rates. If costs rise and we are unable to increase premium rates, our profit margins will shrink. Shrinking profit margins may reduce our net income and adversely affect the value of your investment in Coventry. Premium rates for managed care plans generally have increased in recent months, but we could experience unforeseen decreases or severely limited increases in future premium rates. Also, 27.6% of our premium revenues through March 31, 2000 were derived from governmental programs, including Medicare and Medicaid. The government generally fixes these premium rates and we cannot adjust them based on our anticipated costs. Recent legislation has limited Medicare premium rate increases substantially as compared to increases permitted in prior years. As a result, in the future the total costs of our government programs could exceed the total premiums that we receive from these programs.

IF WE ARE UNABLE TO INCREASE OUR REVENUES AND OUR PROFIT MARGINS SHRINK, OUR NET INCOME MAY DECREASE AND THE VALUE OF YOUR INVESTMENT IN COVENTRY MAY DECLINE.

In the future, we may not be able to increase or maintain our current revenues. Since we no longer receive revenues under our agreements with Principal Life, which expired on December 31, 1999, there is a risk that we may not be able to replace the revenues generated from these fees. We recognized revenues from these agreements of $25.5 million in 1999 and $23.0 million in 1998. We may also be unable to reduce our costs or increase our premium rates. If we are faced with shrinking profit margins and are unable to increase our revenues, we will have a decline in net income, which could adversely affect the value of your investment in Coventry.

Increases in our revenues will be generally dependent upon our ability to increase premiums and membership. In addition to the loss of revenues generated from the Principal Life fees, there are several factors that may affect our ability to maintain or increase revenues including:

- rising costs
- loss of membership to our competitors

- failure to attract new members
- inability to increase premiums due to regulatory restrictions
- loss of membership due to increased premium rates
- withdrawal from unprofitable markets
- consumer preferences for lower priced health care options
- price competition

OUR FAILURE TO ACCURATELY ESTIMATE FUTURE HEALTH CARE COSTS MAY RESULT IN PREMIUMS THAT ARE NOT SUFFICIENT TO COVER MEDICAL COSTS, WHICH MAY NEGATIVELY AFFECT OUR OPERATING RESULTS AND REDUCE THE VALUE OF YOUR INVESTMENT IN COVENTRY.

If we underestimate the costs of health care services and supplies that we provide to our members, we may set our premium rates too low. Low premiums may result in an inability to generate revenues that are sufficient to pay future health care costs. This shortfall could significantly change our results of operations, affect profitability and adversely affect the value of your investment in Coventry. While we attempt to base the premiums we charge, at least in part on our estimate of expected health care costs over the fixed premium period, other factors may limit our ability to fully base premiums on estimated costs and could cause actual health care costs to exceed estimated health care costs. These factors could include:

- the increased cost of individual health care services
- the type and number of individual health care services delivered exceeding our expectations
- the occurrence of catastrophes or epidemics
- seasonality and trends

- general inflation
- new mandated benefits or other regulatory changes that increase our costs
- operational issues
- insured population characteristics
- competitive pressures
- other unforeseen occurrences

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

We expect that substantially all of our members will be served by providers contracting with us to provide the requisite medical care. Our ability to contract successfully with a sufficiently large number of providers in a given geographic market will impact the relative attractiveness of managed care products in those markets. In addition, the terms of those provider contracts also have a material impact on our medical costs and our ability to control these costs.

WE MAY NOT BE ABLE TO REACH COST-EFFECTIVE AGREEMENTS WITH CERTAIN MAJOR MARKET PROVIDERS, WHICH COULD REDUCE COVENTRY'S NET INCOME AND CAUSE A DECLINE IN THE VALUE OF YOUR INVESTMENT IN COVENTRY.

In some of our markets, there are provider systems that have a major presence. Our product offerings and profitability may be adversely affected if these provider systems refuse to contract with us, place us at a competitive disadvantage or use their market position to negotiate contracts that are unfavorable to us.

THERE IS A RISK THAT PROVIDERS WITH WHOM WE HAVE CAPITATION CONTRACTS MAY BE FINANCIALLY UNABLE OR UNWILLING TO FULFILL THEIR PAYMENT OR MEDICAL CARE OBLIGATIONS UNDER CAPITATION AGREEMENTS AND THAT OUR MEMBERS MAY PREFER TO UTILIZE OTHER PROVIDERS WITH WHOM WE DO NOT HAVE CAPITATION CONTRACTS.

Among the medical cost control techniques we have utilized are capitation agreements with providers pursuant to which we pay providers a fixed dollar amount per member per month, with the provider obligated to provide all of a particular type of medical service required by the members, and global capitation agreements pursuant to which a single integrated hospital-physician provider system provides substantially all hospital and medical services to a large number of members for a fixed percentage of the premium we charge with respect to those members. While these systems may shift to the contracting provider system the risk that medical costs will exceed the amounts anticipated, we will be exposed to the risks if the provider systems are financially unable or unwilling to fulfill their payment or medical care obligations under the capitation agreements. In addition, it is possible that members may prefer other providers in the market with whom we do not have capitation agreements. If our members choose to utilize providers with whom we do not have capitation agreements, we may incur higher costs. These higher costs may reduce our net income and negatively impact the value of your investment in Coventry.

PRINCIPAL LIFE AND ITS AFFILIATES' ABILITY TO EXERCISE CONTROL OVER COVENTRY COULD ADVERSELY AFFECT THE VALUE OF YOUR INVESTMENT IN COVENTRY.

As a result of our acquisition of the health plans of Principal Health Care, Inc., a subsidiary of Principal Life, Principal Life acquired approximately 40% of our common stock, on a fully diluted basis. Due to previously agreed upon limitations that are effective through April 2003, Principal Life may purchase additional shares of our common stock, but only to maintain its 40% ownership of our fully diluted common stock.

In addition to its ownership position, Principal Life has designated 4 members of our 10 member Board of Directors in correspondence with its current percentage ownership of our common stock. As long as Principal Life owns at least 10% of our common stock, it can designate one member of our Board of Directors for each 6% ownership of our common stock. Accordingly, Principal Life currently has the right to designate up to six members of our Board.

Principal Life's ownership position and its representation on our Board of Directors, allow it to exert significant influence over the direction and operations of Coventry. In some instances, this influence could be used in a manner that is contrary to the best interests of our other stockholders, and may accordingly decrease the value of your investment in Coventry.

It should be noted, however, that prior to April 2003, Principal Life agreed to vote its shares in favor of any acquisition required to be approved by our shareholders, that a Special Committee of our Board of Directors has recommended, and that a majority of our shareholders, other than Principal Life, have approved. The Special Committee will consist of members of our Board of Directors that are neither management, nor designees of Principal Life.

Additionally, prior to April 2003, Principal Life agreed to vote its shares for the election of directors nominated by the nominating committee of the Board of Directors, and not to oppose or seek removal of any person nominated by this nominating committee.

Once the previously agreed upon limitations imposed on Principal Life expire in April 2003, Principal Life may acquire additional shares of our common stock to the point that it exercises complete control over the Company. If Principal Life were to acquire over 50% of our common stock, it would have actual control over us, and would have a controlling vote in all actions involving a shareholder vote. As the majority shareholder, Principal Life could block transactions that were advantageous to our minority shareholders.

On May 5, 2000, Principal Life entered into a private transaction with Warburg Pincus whereby Warburg Pincus will purchase 10 million shares of Coventry common stock from Principal Life for $10 per share. The appropriate regulatory authorities must approve the transaction before the shares may be transferred. The parties anticipate completion of the transaction by September 2000. Upon completion of the transaction, Warburg Pincus and Principal Life will own approximately 31% and 23%, respectively, of Coventry's fully diluted common shares. Warburg Pincus may purchase additional shares of our common stock, but Warburg Pincus has agreed, effective through May 2005, not to own more than 34.9% of our common stock on a fully diluted basis.

Accordingly, the value of your investment in Coventry could decline, as future investors may not consider our common stock to be an attractive stock due to the percentage of our common stock held by, or that may be held by, Principal Life and Warburg Pincus.

FUTURE AND EXISTING LAWS AND RULES GOVERNING COVENTRY MAY IMPACT OUR BUSINESS AND NEGATIVELY AFFECT OUR PROFITABILITY.

Coventry's industry is heavily regulated and the laws and rules governing the industry and interpretations of those laws and rules are subject to frequent change. Existing or future laws could force us to change how we do business and may restrict our revenue and/or enrollment growth and/or increase our health care and administrative costs. Regulatory approvals must be obtained and maintained to market many of our products and services. Delay in obtaining or failing to obtain or maintain such approvals could adversely affect our revenue or the number of our covered lives, or could increase our costs.

OUR CONTRACTS WITH FEDERAL AND STATE GOVERNMENT AGENCIES ARE SUBJECT TO PERIODIC AUDITS THAT COULD HAVE AN ADVERSE RESULT THAT MAY LEAD TO A DECLINE IN THE VALUE OF YOUR INVESTMENT IN COVENTRY.

Coventry contracts with various federal and state governmental agencies to provide managed health care services. These agencies include the United States Office of Personnel Management that contracts with us to provide managed health care services for federal employees under the Federal Employees Health Benefits Program; the U. S. Health Care Financing Administration that contracts with us to provide a Medicare product to eligible beneficiaries; and certain states that contract with us to provide a Medicaid product to eligible recipients. These contracts and applicable federal and state regulations, among other requirements, establish premium rating requirements or fixed premiums per member per month. These governmental agencies and states may periodically audit us to verify our compliance with their contracts and applicable federal and state laws and regulations. Such audits could result in material adjustments. An adverse audit of our contracts with governmental agencies could result in the loss of licensure, the loss of the right to participate in certain programs, the imposition of fines, penalties, and other sanctions and could negatively affect our reputation in various markets and make it more difficult for us to sell our products and services.

IN THE FUTURE, WE MAY NOT BE ABLE TO MEET CERTAIN MINIMUM CAPITALIZATION LIMITS THAT MAY BE ADOPTED BY STATES IN WHICH WE DO BUSINESS.

The National Association of Insurance Commissioners has proposed that states adopt risk-free capital standards that, if implemented, would generally require higher minimum capitalization limits for health care coverage provided by HMOs and other risk-bearing health care entities. Several states where Coventry has HMO operations have adopted those standards, effective either in 2001 or to be phased-in over a period of years. We do not expect this legislation to have a material impact on our consolidated financial position in the near future. We believe that cash flows from operations will be sufficient to fund any additional regulatory risk-based capital.

COSTS ASSOCIATED WITH LITIGATION MAY RESULT IN LOSSES TO US THAT COULD NEGATIVELY IMPACT THE VALUE OF YOUR INVESTMENT IN COVENTRY.

We are susceptible to litigation and insurance risks, including medical malpractice liability, disputes relating to the denial of coverage and the adequacy of "stop-loss" reinsurance for costs resulting from catastrophic injuries or illnesses. Coventry has contingent litigation risk with certain discontinued operations. Such litigation may result in losses to us that could have material adverse effect on our operations, financial performance, cash flows or future prospects and adversely affect the value of your investment in Coventry.

FORWARD LOOKING STATEMENTS

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. These forward-looking statements may be affected by a number of factors, including the "Risk Factors" contained in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and actual operations and results may differ materially from those expressed in this Form 10-Q. Among the factors that may materially affect the Company's business are potential increases in medical costs, difficulties in increasing premiums due to competitive pressures, price restrictions under Medicaid and Medicare, imposition of regulatory restrictions, issues relating to marketing of products or accreditation or certification of the products by private or governmental bodies, difficulties in obtaining or maintaining favorable contracts with health care providers, credit risks on global capitation arrangements, financing costs and contingencies and litigation risk.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

The Company's material risk in investments in financial instruments is in its debt securities portfolio. The Company invests primarily in marketable state and municipal, U.S. Government and agencies, corporate, and mortgage-backed debt securities.

The Company has established policies and procedures to manage its exposure to changes in the fair value of its investments. These policies include an emphasis on credit quality, management of portfolio duration, maintaining or increasing investment income through high coupon rates and actively managing profile and security mix depending upon market conditions. The Company has classified all of its investments as available-for-sale. At March 31, 2000, the fair value of the Company's investments was $385.8 million. Securities at March 31, 2000 mature according to their contractual terms, as follows (actual maturities may differ because of call or prepayment rights):

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Fair Value <C>
	(in thousands)	
Maturities:		
Within 1 year	$ 102,713	$ 102,670
1 to 5 years	124,291	122,449
6 to 10 years	68,259	66,065
Over 10 years	94,725	93,647
Other securities without stated maturity	1,154	938
Total short-term and long-term securities	$ 391,142	$ 385,769

</TABLE>

The Company believes its investment portfolio is diversified and expects no material loss to result from the failure to perform by the issuer of the debt securities it holds. GNMA and FNMA insure the mortgage-backed securities.

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

Based on the Company's debt securities portfolio and interest rates at March 31, 2000, a 100 basis point increase in interest rates would result in a decrease of $8.9 million, or 2.3%, in the fair value of the portfolio. Changes in interest rates may affect the fair value of the debt securities portfolio and may result in unrealized gains or losses. Gains or losses would be realized upon the sale of the investments.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

In the normal course of business, the Company has been named as a defendant in various legal actions seeking payments for claims denied by the Company, medical malpractice, and other monetary damages. The claims are in various stages of proceedings and some may ultimately be brought to trial. Incidents occurring through March 31, 2000 may result in the assertion of additional claims. With respect to medical malpractice, the Company carries professional malpractice and general liability insurance for each of its operations on a claims-made basis for which the Company maintains reserves. In the opinion of management, the outcome of these actions should not have a material adverse effect on the financial position or results of operations of the Company.

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

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

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, the Company and certain affiliated hospitals of Allegheny Health, Education and Research Foundation ("AHERF") were involved in litigation during 1998 and 1999 to determine if the Company, as a consequence of the bankruptcy filed by AHERF, had the financial responsibility for medical services provided to the Company's members by the hospitals.

Consequently, the Company, which is ultimately responsible for medical costs delivered to its members, notwithstanding the global capitation agreement, recorded a charge of $55.0 million in the second quarter of 1998 to establish a reserve for, among other things, the medical costs incurred by its members under the AHERF global capitation agreement at the time of the bankruptcy filing.

As a result of a settlement reached in 1999, the Company released $6.3 million of the reserve, which was reflected, as a gain in the fourth quarter and year-end 1999 results. The balance of the reserve represents the Company's remaining obligations under the settlement and will be expended through August 2007.

The Company is currently in dispute with Unity Health Network and with BJC Health System as described in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Between the filing of the Company's Form 10-K on March 29, 2000 and the filing of this Form 10-Q, arbitration proceeding have begun with respect to BJC Health System, but there have been no material developments relating to the disputes.

ITEMS 2, 3, 4 AND 5:

Not Applicable

ITEM 6: EXHIBITS REQUIRED TO BE FILED BY ITEM 601 OF REGULATION S-K.

Exhibit No.	Description of Exhibit
10.1	2000 Management Incentive Plan
11	Computation of Net Earnings Per Common and Common Equivalent Share
21	Subsidiaries of the Registrant
27	Financial data schedule (for SEC use only)

(a) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 2000.

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: May 12, 2000	By: /s/ Allen F. Wise Allen F. Wise President, Chief Executive Officer and Director
Date: May 12, 2000	By: /s/ Dale B. Wolf Dale B. Wolf Executive Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer

EXHIBIT 10.1

COVENTRY HEALTH CARE, INC.
2000 MANAGEMENT INCENTIVE PLAN (MIP)

PLAN OBJECTIVE

The objective of Coventry Health Care's (CHC) 2000 Management Incentive Plan (MIP) is to reward employees for their contribution to the achievement of company-wide, business unit, health plan, and team/individual goals.

PLAN YEAR

The plan year will be consistent with CHC's fiscal year, January 1 through December 31, 2000.

ELIGIBILITY

The CEO of CHC will determine eligible employees prior to the beginning of the plan year. Participants of CHC's sales incentive plans are not eligible for the MIP. Participants must be actively employed at the time incentive checks are distributed to receive an incentive payment. MIP payouts may be prorated based on hire date or the promotion date of each participant.

TIMING OF INCENTIVE PAYOUTS

Incentive payouts will occur as soon as possible after the close of the fiscal year. Once CHC's financial results are finalized, incentive payouts will be calculated and paid. Incentives will probably be paid in February/March, 2001.

TARGET INCENTIVE OPPORTUNITY

<TABLE>
<CAPTION>

	Target Incentive %
<S>	<C>
Executive Vice Presidents	75%
Sr. Vice Presidents and Coaches	50% to 70%
Vice Presidents	30%
Directors	15% to 25%
Managers (Inclusion must be reviewed by VP Compensation and approved by the CEO of CHC)	10% to 15%

</TABLE>

The CEO of Coventry Health Care will have discretion to increase the target incentive opportunity for a selected number of key employees.

PERFORMANCE CRITERIA

Criteria for incentive payouts includes the following three factors:

- CHC Financial Results
- Health Plan Financial Results
- Team and Individual Achievements

COVENTRY HEALTH CARE RESULTS

The performance of CHC will be based on the achievement of its Earnings Per

Share goal.

<TABLE>
<CAPTION>

2000 Goal	
<S>	<C>
Earnings Per Share	$0.77

</TABLE>

HEALTH PLAN RESULTS

The performance of each Health Plan will be based on the achievement of its Plan Contribution and Revenue Growth goals as set forth in the 2000 Budget. The two key goals are weighted as follows:

- Plan Contribution	75%
- Revenue Growth	25%

INCENTIVE POOL FUNDING

Target incentive pools will be calculated separately for each Health Plan and Corporate. The number of eligible employees, individual incentive targets and each eligible employee's base pay will determine each budgeted target incentive pool.

Actual funding of incentive pools is based on the results achieved by each Health Plan and the overall performance of Coventry Health Care, Inc.

HEALTH PLAN INCENTIVE POOL

Each Health Plan's incentive pool is funded based on the achievement of its Plan Contribution and Revenue Growth goals. Each Health Plan's pool will be modified based on the achievement of CHC's EPS goal. The following chart will be utilized to calculate the final incentive pool for each Health Plan.

<TABLE>
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Level of Goal Achievement	% of Target Pool Available for Payout(1)
<S>	<C>
< = 85%	0%
86 to 99%	Compensation & Benefits Committee Discretion
100%	100%
110%	110%
120%	120%
130%	130%
140%	140%
150%	150%

</TABLE>

(1) Straight-line interpolation will be used to calculate the incentive pools when performance falls between two levels.

Once each Health Plan's incentive pool is calculated, it will be modified by the achievement of CHC's Earnings Per Share goal. The following chart displays the scale that will be used to modify each Health Plan's incentive pool.

Level of Goal Achievement	Health Plan Incentive Pool Modifier(2)
< = 80%	0
85%	.50
90%	.75
95%	.90
100%	1
110%	1.05
120%	1.10
130%	1.20
140%	1.30

(2) Straight-line interpolation will be used to calculate the pool modifier when performance falls between two levels

EXAMPLE INCENTIVE POOL CALCULATION

Example 1: The Health Plan achieves 90% of its Plan Contribution goal, which results in the target incentive pool being decreased to 50% of the budgeted target pool. CHC achieves 95% of its Earnings Per Share Goal, thus modifying the Health Plan's pool downward by .90. THE FINAL INCENTIVE POOL EQUALS 45% OF THE BUDGETED TARGET POOL.

Example 2: The Health Plan achieves 120% of its Plan Contribution goal, which results in the target incentive pool being increased to 120% of the budgeted target pool. CHC achieves 130% of its Earnings Per Share Goal, thus modifying the Health Plan's pool upward by 1.2. THE FINAL INCENTIVE POOL EQUALS 144% OF THE BUDGETED TARGET POOL.

CORPORATE INCENTIVE POOL

The corporate incentive pool is funded based on the achievement of CHC's EPS goal.

Level of Target CHC Earnings Per Share Goal Achievement	% of Target Pool Available for Payout(1)
< = 85%	0%
86 to 99%	Compensation & Benefits Committee Discretion
100%	100%
110%	110%
120%	120%
130%	130%
140%	140%
150%	150%

</TABLE>

(1) Straight-line interpolation will be used to calculate the incentive pools when performance falls between two levels

INDIVIDUAL INCENTIVE PAYOUT CALCULATION

Individual incentive awards will be determined by the following:

1. Individual target incentive opportunity,

2. Pool funding, and

3. Achievement of pre-established financial goals and individual/team non-financial goals.

Individual incentive awards can vary between 0% and 200% of their incentive target opportunity.

FORM OF PAYMENT

Amounts < = $10,000 (Net) - 100% paid in cash
Amounts > $10,000 (Net) - first $10,000 (Net) paid in cash. Remaining net award will be paid 50% in cash and 50% in CHC stock.

MISCELLANEOUS

Coventry Health Care reserves the right to amend or discontinue this plan at any time and/or add, reduce or limit the number of participants at any time such actions are deemed appropriate and in the best interest of CHC. This document shall NOT be construed as a contract with the employee and is in no way intended to limit the employment at will status of employees of Coventry Health Care, Inc. or its Health Plans.

Exhibit 11

Coventry Health Care, Inc.
Computation of Net Earnings Per Share

<TABLE>
<CAPTION>

	Quarter Ended March 31, 2000		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
<S>	<C>	<C>	<C>
Basic EPS	$11,742	58,850	$0.20
Effect of dilutive securities:			
Options and warrants		255	
Redeemable convertible preferred stock		4,709	
Diluted EPS	$11,742	63,814	$0.18

<CAPTION>

	Quarter Ended March 31, 1999		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
<S>	<C>	<C>	<C>
Basic EPS	$8,293	58,851	$0.14
Effect of dilutive securities:			
Options and warrants		712	
Convertible notes		4,521	
Interest on convertible notes	516		
Diluted EPS	$8,809	64,084	$0.14

</TABLE>

EXHIBIT 21

COVENTRY HEALTH CARE, INC. AND SUBSIDIARIES
MARCH 31, 2000

NAME OF CORPORATION

CURRENT CORPORATIONS:

1. COVENTRY HEALTH CARE, INC. (DELAWARE)

2. Coventry Corporation (Tennessee)

3. Coventry Health and Life Insurance Company(1) (Delaware)

4. Coventry Healthcare Management Corporation d/b/a HealthAssurance (Delaware)

5. Coventry HealthCare Management Corporation (Virginia)

   (i) Southern Health Services, Inc. (Virginia)

   (ii) Southern Health Benefit Services, Inc. (Virginia)

6. Coventry HealthCare Development Corporation (Delaware)

   (i) Carelink Health Plans, Inc.(2) (West Virginia)

7. Group Health Plan, Inc. (Missouri)(3)

   (i) Specialty Services of Missouri, Inc. (Missouri)

8. HealthAmerica Pennsylvania, Inc.(4) (Pennsylvania)

9. Healthcare America, Inc. (Kansas)

   (i) Coventry Health Care of Kansas City, Inc.(5) (Kansas)

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(1) Redomesticated from Texas to Delaware on May 14, 1999.
(2) Carelink Health Plans, Inc. ("Carelink") was acquired effective October 1,

1999 and, on the same date, Coventry Health Plan of West Virginia, Inc. was merged with and into Carelink, with Carelink as the surviving company. On February 10, 2000, PrimeONE, Inc., a West Virginia corporation, was merged with and into Carelink.

(3) Principal Health Care of St. Louis, Inc. was merged into Group Health Plan, Inc. effective December 21, 1999.

(4) On April 5, 1999, Riverside Health Plan, Inc., a Pennsylvania corporation, was merged into its parent corporation, The Medical Center HPJV, Inc., a Pennsylvania corporation ("HPJV"), and HPJV was merged into its parent corporation, HealthAmerica Pennsylvania, Inc., a Pennsylvania corporation.

(5) On December 21, 1998, Principal Health Care of Kansas City, Inc., a Missouri corporation, was merged with and into Healthcare America Plans, Inc., a Kansas corporation acquired by Coventry Health Care, Inc. on December 21, 1998, ("HAPI") with HAPI as the surviving company whose name was changed to Principal Health Care of Kansas City, Inc., a Kansas corporation. On November 10, 1999 in Kansas and on December 23, 1999 in Missouri, Principal Health Care of Kansas City, Inc. changed its name to Coventry Health Care of Kansas, Inc.

10. HealthCare USA, Inc. (Florida)

    (i) HealthCare USA Midwest, Inc. (Delaware)

        (a) HealthCare USA of Missouri, L.L.C. (Missouri)

11. HealthPass, Inc. (Pennsylvania)

12. Pennsylvania HealthCare USA, Inc. (Pennsylvania)

13. Coventry Health Care of Iowa, Inc.(6) (Iowa)

14. Coventry Health Care Management Corporation of Iowa, Inc.(7) (Iowa)

15. Coventry Health Care of the Carolinas, Inc.(8) (North Carolina)

16. Coventry Health Care of Delaware, Inc.(9) (Delaware)

17. Coventry Health Care of Georgia, Inc.(10) (Georgia)

18. Coventry Health Care of Indiana, Inc.(11) (Delaware)

19. Coventry Health Care of Louisiana, Inc.(12) (Louisiana)

20. Coventry Health Care of Nebraska, Inc.(13) (Nebraska)

21. Coventry Health Care of Pennsylvania, Inc.(14) (Pennsylvania)

22. Principal Health Care of St. Louis, Inc.(15) (Delaware)

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(6) On November 3, 1999, Principal Health Care of Iowa, Inc. changed its name to Coventry Health Care of Iowa, Inc.
(7) On October 4, 1999, Principal Health Care Management Corporation changed its name to Coventry Health Care Management Corporation of Iowa, Inc. On February 2, 2000 the company was dissolved.
(8) On October 4, 1999, Principal Health Care of the Carolinas, Inc. changed its name to Coventry Health Care of the Carolinas, Inc.
(9) On the following dates and in the states indicated, Principal Health Care of Delaware, Inc. changed its name to Coventry Health Care of Delaware, Inc.: Delaware, October 4, 1999; Maryland, October 15, 1999; New Jersey, October 22, 1999; and Pennsylvania, November 12, 1999.
(10) On November 1, 1999, Principal Health Care of Georgia, Inc. changed its name to Coventry Health Care of Georgia, Inc.
(11) On October 4, 1999, Principal Health Care of Indiana, Inc. changed its name to Coventry Health Care of Indiana, Inc.
(12) On December 17, 1999, Principal Health Care of Louisiana, Inc. changed its name to Coventry Health Care of Louisiana, Inc.
(13) On October 4, 1999 in Nebraska and on October 22, 1999 in Iowa, Principal Health Care of Nebraska, Inc. changed its name to Coventry Health Care of Nebraska, Inc.
(14) On October 4, 1999, Principal Health Care of Pennsylvania, Inc. changed its name to Coventry Health Care of Pennsylvania, Inc.
(15) Principal Health Care of St. Louis, Inc. was merged into Group Health Plan, Inc. effective December 21, 1999.

23. Coventry Health Care of South Carolina, Inc.(16) (South Carolina)

24. Coventry Health Care of Tennessee, Inc.(17) (Tennessee)

25. United HealthCare Services of Iowa, Inc.(18) (Iowa)

FORMERLY OWNED SUBSIDIARIES WITH CONTINUING LIABILITIES:

1. Principal Health Care of Illinois, Inc.(19) (Illinois)

2. Principal Health Care of Florida, Inc.(20) (Florida)

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(16) On October 4, 1999, Principal Health Care of South Carolina, Inc. changed its name to Coventry Health Care of South Carolina, Inc. On February 1, 2000, the company was dissolved.

(17) On October 5, 1999, Principal Health Care of Tennessee, Inc. changed its name to Coventry Health Care of Tennessee, Inc. On February 3, 2000, the company was dissolved.

(18) On February 2, 2000, the company was dissolved.

(19) Sold to First American Group effective November 30, 1998.

(20) Sold to Blue Cross Blue Shield of Florida, Inc. effective December 31, 1998.

<TABLE> <S> <C>

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF COVENTRY HEALTH CARE, INC. FOR THE QUARTER ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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