

**DEPARTMENT OF INSURANCE
STATE OF KANSAS**

In the Matter of the Proposed Acquisition of)
Control of COVENTRY HEALTH CARE OF)
KANSAS, INC.)

By)

WARBURG, PINCUS EQUITY PARTNERS, L.P.,)
WARBURG, PINCUS NETHERLANDS EQUITY)
PARTNERS, I, C.V., WARBURG, PINCUS)
NETHERLANDS EQUITY PARTNERS, II, C.V.,)
WARBURG, PINCUS NETHERLANDS EQUITY)
PARTNERS, III, C.V., WARBURG, PINCUS)
VENTURES, L.P.)

Docket No. 2891-M

ORDER

NOW on this 30th day of August, 2000, the above matter comes before the Commissioner of Insurance of the State of Kansas upon the filing of a pre-acquisition notice pursuant to K.S.A. 40-3304 and K.A.R. 40-1-28 in the form of a Form A Statement Regarding the Proposed Acquisition of Control ("Form A Statement") by Warburg, Pincus Equity Partners, L.P., Warburg, Pincus Netherlands Equity Partners, I, C.V., Warburg, Pincus Netherlands Equity Partners, II, C.V., Warburg, Pincus Netherlands Equity Partners, III, C.V. (collectively, the "Equity Partners") and Warburg, Pincus Ventures, L.P., collectively referred to as the "Applicants". The Form A Statement relates to the proposed acquisition of control of Coventry Health Care of Kansas, Inc., a Kansas health maintenance organization, by the Applicants. The acquisition of control of Coventry Health Care of Kansas, Inc. will occur through Equity Partners purchase of stock of Coventry Health Care, Inc., a Delaware corporation which indirectly owns all of the stock of Coventry Health Care of Kansas, Inc., from Principal Health Care, Inc., an Iowa corporation (The Seller). This transaction will account for approximately 16% (percent)

ownership of the stock of Coventry Health Care, Inc. When Equity Partners 16% (percent) ownership is combined with the 15% (percent) ownership currently held by Warburg, Pincus Ventures, L.P., the Applicants will collectively own approximately 31% (percent) of the stock of Coventry Health Care, Inc., which indirectly owns all of the stock of Coventry Health Care of Kansas, Inc.

Seller is represented by its in-house attorney, Karen Schaff. Applicants are represented by their attorney, Jonathan Weinberg of Epstein Becker & Green, P.C. The Kansas Insurance Department is represented by its General Counsel, Kathy Greenlee. Also appearing for the Kansas Insurance Department are Don Gaskill, Chief Examiner, Patrick Mulvihill and John McCarvel of the Financial Surveillance Division.

FINDINGS OF PUBLIC INTEREST AND POLICY

The following declarations of public interest and policy are set forth:

The Commissioner finds and declares that it is consistent with the public interest, K.S.A. 40-3301 and the interest of policyholders to permit insurers:

- to engage in activities which will enable insurers to make better use of management skills and facilities;
- to diversify into new lines of business through acquisition and/or organization of subsidiaries;
- to have free access to capital markets which can provide funds for insurers to use in diversification programs;
- to implement sound tax-planning conclusions; and
- to serve the changing needs of the public and adapt to changing conditions of the social, economic and political environment so that insurers are able to compete effectively and to meet the growing public demand for institutions capable of providing a comprehensive range of financial services.

The Commissioner further declares that said public policy promotes the public interest by:

- facilitating the achievement of the objectives enumerated in K.S.A. 40-3301 and set out above;

- requiring disclosure of pertinent information relating to changes in control of an insurer;
- requiring disclosure by an insurer of material transactions and relationships between the insurer and its affiliates, including certain dividends paid by the insurer; and
- providing standards governing material transactions between the insurer and its affiliates.

The above declared policies and purposes are the criteria for making the findings and conclusions stated herein. Those findings and conclusions are based upon the statements made by the Applicants in the Form A Statement and accompanying documents and exhibits filed with the Kansas Insurance Department by the Applicants pursuant to K.S.A. 40-3304(b).

Significant documents have been reviewed by representatives of the Financial Surveillance and Legal Divisions of the Kansas Insurance Department, and the Commissioner has had the benefit of their technical expertise and advice as provided in K.S.A. 77-546(c).

The purpose of the filing of the Form A Statement is to seek authority from the Kansas Insurance Department for the proposed acquisition of control of Coventry Health Care of Kansas, Inc. by the Applicants. The terms and conditions of the proposed acquisition are more fully set forth in the Form A Statement filed with the Commissioner on August 18 , 2000, pursuant to the Kansas Insurance Holding Companies Act, K.S.A. 40-3301, et seq.

The Applicants have submitted the following documents as Exhibits to the Form A Statement:

- Exhibit A Securities Purchase Agreement (Equity Partners)
- Exhibit B Securities Purchase Agreement (Warburg, Pincus Ventures, L.P.)
- Exhibit C Organizational Chart
- Exhibit D Voting Trust Agreement (Equity Partners)
- Exhibit E Voting Trust Agreement (Warburg, Pincus Ventures, L.P.)
- Exhibit F Biographical Affidavits
- Exhibit G Financial Statements of the Equity Partners
- Exhibit H Financial Statements of Warburg, Pincus Ventures, L.P.
- Exhibit I Annual Reports to Stockholders of Coventry Health Care, Inc.
- Exhibit J Disclaimer of Affiliation by Warburg, Pincus & Co. filed with the Kansas Insurance Department on July 19, 2000
- Exhibit K Disclaimer of Affiliation by Lionel I. Pincus filed with the Kansas Insurance Department on July 19, 2000

- Exhibit L Disclaimer of Affiliation by E.M. Warburg, Pincus & Co., LLC filed with the Kansas Insurance Department on August 18, 2000.

The staff of the Kansas Insurance Department has inspected and reviewed the contents of the Form A Statement and all Exhibits attached thereto and found that the filing of the Form A Statement and Exhibits attached thereto is in accordance with K.S.A. 40-3304 and related regulations and that the Form A Statement and Exhibits attached thereto have provided the information required under Kansas statutes to enable the Commissioner to render a decision on the application.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. Coventry Health Care of Kansas, Inc. is a wholly-owned subsidiary of Healthcare America, Inc. which, in turn, is a wholly-owned subsidiary of Coventry Health Care, Inc.

2. Warburg, Pincus Ventures, L.P. currently owns 15% of the stock of Coventry Health Care, Inc.

3. Warburg, Pincus Ventures, L.P. filed a Disclaimer of Affiliation with us prior to acquiring this stock in 1999. One of the conditions for accepting this Disclaimer was that we were to be given prior notification before the number of Directors of Coventry Health Care, Inc. decreased. We were not given prior notification before the number of Directors decreased from 15 to 10; therefore, Warburg, Pincus Ventures, L.P. agreed to be an applicant to this Form A filing.

3. The other four applicants propose to purchase stock of Coventry Health Care, Inc. from Principal Health Care, Inc. which will result in them having the following percentages of ownership: Warburg, Pincus Equity Partners, L.P. --- (15%); Warburg, Pincus Netherlands Equity Partners, I, C.V. --- (0.5%); Warburg, Pincus Netherlands Equity Partners, II, C.V. --- (0.3%); and, Warburg, Pincus Netherlands Equity Partners, III, C.V. --- (0.1%).

4. After the acquisition of stock, the Applicants will have a combined ownership equity of approximately 31% of the stock of Coventry Health Care, Inc.

5. Warburg, Pincus & Co., a New York general partnership, is the general partner of all the Applicants.

6. Lionel I. Pincus has voting control of Warburg, Pincus & Co.

7. E. M. Warburg, Pincus & Co., LLC, a New York limited liability company, manages all of the Applicants pursuant to management agreements.

8. Warburg, Pincus & Co., Lionel I. Pincus and E. M. Warburg, Pincus & Co., LLC have all filed Disclaimers of Affiliation.

9. The Applicants filed a duly certified copy of the Form A Statement with the Kansas Insurance Department on August 18, 2000.

10. Review of evidence establishes that, after the acquisition of control as proposed in the Form A Statement, the Applicants will be able to satisfy the requirements necessary for maintaining the business of Coventry Health Care of Kansas, Inc. to the satisfaction and protection of the policyholders.

11. Evidence establishes that, after the acquisition of control as proposed in the Form A Statement, Coventry Health Care of Kansas, Inc. will be able to satisfy the requirements for issuance of a license to write the line or lines of business for which it is presently licensed.

12. No evidence has been introduced to establish that the financial condition of the Applicants will jeopardize the financial stability of Coventry Health Care of Kansas, Inc. or prejudice the interest of the policyholders.

13. Evidence shows that the Applicants have no plans or proposals to liquidate Coventry Health Care of Kansas, Inc., sell its assets or consolidate or merge it with any person,

or to make any other material change in its business or corporate structure or management which would be unfair or unreasonable to the policyholders or Coventry Health Care of Kansas, Inc. or not be in the public interest.

14. Evidence establishes that the acquisition will not be hazardous or prejudicial to the insurance-buying public.

15. The Form A Statement is in compliance with the provisions of the Kansas Insurance Holding Companies Act, K.S.A. 40-3301 et seq.

16. The evidence submitted supports approval of the proposed acquisition of control of Coventry Health Care of Kansas, Inc. by the Applicants.

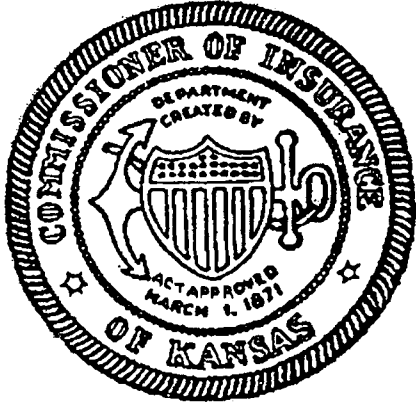
17. Evidence shows that the competence, experience and integrity of those persons who would control the operations of Coventry Health Care of Kansas, Inc. are such that it would be in the interest of policyholders of Coventry Health Care of Kansas, Inc. and of the public to permit the acquisition of control.

IT IS THEREFORE, BY THE COMMISSIONER OF INSURANCE, ORDERED THAT:

1. The application by Warburg, Pincus Equity Partners, L.P., Warburg, Pincus Netherlands Equity Partners, I, C.V., Warburg, Pincus Netherlands Equity Partners, II, C.V., Warburg, Pincus Netherlands Equity Partners, III, C.V. and Warburg, Pincus Ventures, L.P. to acquire control of Coventry Health Care of Kansas, Inc. in the manner set forth in the Form A Statement and Exhibits attached thereto is hereby approved pursuant to K.S.A. 40-3304, provided the acquisition is effected within sixty (60) days of the date of this Order.

2. The Commissioner of Insurance retains jurisdiction over the subject matter of this proceeding and over the parties for the purpose of entering such further Order or Orders as may be deemed proper.

IT IS SO ORDERED THIS 30th DAY OF AUGUST, 2000, IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANSAS.



Kathleen Sebelius

Kathleen Sebelius

Commissioner of Insurance

BY:

Kathy Greenlee

Kathy Greenlee

General Counsel