



## Humana Reports Second Quarter and First Half 2002 Results And Authorizes \$100 Million Share Repurchase Program

July 29, 2002

- \* Second quarter net income of \$45.4 million, or \$.27 per diluted share**
- \* Commercial segment pre-tax profit of \$14.9 million in the second quarter of 2002 versus \$4.4 million in the prior year's quarter**
- \* Commercial segment medical membership increases 55,700 year-over-year**
- \* Total medical membership of 6,572,000 at June 30, 2002**
- \* Share repurchase program of \$100 million authorized by the company's board of directors**

LOUISVILLE, Ky., Jul 29, 2002 /PRNewswire-FirstCall via COMTEX/ -- Humana Inc. (NYSE: HUM) today reported earnings of \$.27 per diluted share for the second quarter ended June 30, 2002 versus \$.23 adjusted earnings per diluted share for the second quarter of 2001. (Adjusted earnings for 2001 exclude amortization expense for goodwill. New accounting rules require all companies to cease amortizing goodwill effective January 1, 2002.) Earnings per diluted share for the first six months of 2002 were \$.55 compared to adjusted earnings per diluted share of \$.47 a year ago.

Net income for the second quarter of 2002 was \$45.4 million versus adjusted net income of \$38.1 million for the same period in the prior year, a 19.2 percent increase. Net income for the first six months of \$92.1 million compares with \$77.6 million adjusted net income in the same period a year ago, an 18.7 percent increase.

Income before income taxes for the second quarter increased to \$66.7 million versus adjusted income before income taxes of \$52.8 million a year ago, a 26.3 percent increase. Comparable amounts for the six months ended June 30, 2002 and 2001 were \$135.5 million and \$108.0 million, respectively, an improvement of \$27.5 million, or 25.5 percent. The Commercial segment contributed \$14.9 million in pre-tax income during the second quarter of 2002 compared with adjusted pre-tax income of \$4.4 million for the same period in the prior year.

"Our strategy of growing our business through a wide variety of consumer-directed products, backed by industry-leading technology and innovation, continued to produce favorable results in the second quarter," said Michael B. McCallister, Humana's president and chief executive officer. "We were especially pleased with the more than three-fold increase in the profitability of our Commercial segment year-over-year."

Humana's pre-tax margin improved to 2.4 percent in the second quarter 2002 compared with 2.1 percent in the prior year's quarter, on an adjusted basis.

### Revenues and Membership

Revenues in the second quarter were \$2.83 billion versus \$2.50 billion in the second quarter of 2001, an increase of 13.2 percent. Second quarter revenues increased sequentially from \$2.73 billion in the first quarter of 2002. Total medical membership at June 30, 2002 was 6,572,000 versus 6,463,000 a year ago and 6,534,900 at March 31, 2002.

Second quarter premium revenues and administrative services fees for the Commercial segment totaled \$1.46 billion, an increase over both the second quarter of 2001 and the first quarter of 2002. Commercial segment premium revenues and administrative services fees were \$1.31 billion in the second quarter 2001 and \$1.45 billion in the first quarter 2002. Medical membership for the Commercial segment increased by 55,700 members to 2,947,100 at June 30, 2002 from 2,891,400 a year earlier. Fully insured medical business within the Commercial segment averaged premium yields of 12 to 14 percent for the second quarter of 2002 consistent with those for the first quarter 2002.

Government segment premium revenues and administrative services fees totaled \$1.34 billion in the second quarter of 2002 versus \$1.16 billion for the prior year's quarter and \$1.26 billion in the first quarter of 2002. Medicare+Choice membership at June 30, 2002 was 354,100 versus 418,000 at June 30, 2001, a decline of 63,900 members. As anticipated, the company's Medicare+Choice line averaged premium yields of 5 to 7 percent during the second quarter versus 6 to 8 percent in the first quarter of 2002.

TRICARE premium revenues and administrative services fees increased to \$569.2 million in the second quarter of 2002 versus \$300.0 million in the prior year's quarter. TRICARE premium revenues and administrative services fees for the first quarter of 2002 were \$472.3 million. The year-over-year increase in TRICARE premium revenues and administrative service fees primarily is attributable to the company's acquisition of the TRICARE regions 2 and 5 business on May 31, 2001 as well as an increase in Congressionally legislated benefits, an increase in eligible beneficiaries, and a decrease in the use of military treatment facilities.

TRICARE risk-based membership increased year-over-year by 35,200, or 2.0 percent, totaling 1,761,000 at June 30, 2002 versus 1,725,800 at June 30, 2001. TRICARE ASO membership also increased by 82,500, or 8.8 percent, year-over-year. As of June 30, 2002, 1,021,900 TRICARE members were in ASO programs compared to 939,400 at June 30, 2001.

### Medical and SG&A Expenses

The company's medical expense ratio (medical expenses as a percent of premium revenues) for the second quarter of 2002 was 84.4 percent versus a ratio of 83.9 percent for the same period in 2001.

Medical cost trends for the commercial fully insured medical line of business were in the 11 to 13 percent range for the second quarter of 2002, unchanged from the first quarter 2002. Medicare+Choice medical cost trends for the second quarter 2002 ranged from 4 to 6 percent compared to a range of 6 to 8 percent in the first quarter 2002.

The company's selling, general and administrative ("SG&A") expense ratio (SG&A expenses as a percent of premiums and administrative services fees) declined 130 basis points sequentially to 14.8 percent. This compares to 16.1 percent in the first quarter of 2002 and a ratio of 14.8 percent in the year-ago quarter.

#### Days in Claims Payable

Days in claims payable for the second quarter of 2002 of 46.9 were essentially flat with days in claims payable for the first quarter of 2002.

#### Cash Flows

Normalized cash flows used in operations totaled \$43.8 million in the second quarter of 2002 compared to cash provided by operations of \$45.9 million in the second quarter 2001. (Normalized cash flows from operations give effect to the usual adjustment for the timing of the receipt of the Medicare premium payment from the Centers for Medicare and Medicaid Services (CMS).) Excluding the impact of a \$132.4 million increase in TRICARE receivables during the quarter, normalized cash flows provided by operations totaled \$88.6 million in the second quarter 2002. The company anticipates collection of substantially all of the TRICARE receivables outstanding as of June 30, 2002, during 2002. For the first six months of 2002, normalized cash flows provided by operations were \$32.7 million versus a use of \$29.3 million for the first half of 2001, an increase of \$62.0 million.

#### Guidance

The company now anticipates diluted earnings per share of \$1.17 to \$1.19 for 2002, revising its previous guidance of \$1.15 to \$1.19. The company further expects a growth rate in earnings per diluted share for 2003 of at least 15 percent.

#### Share Repurchase Program

The company also announced that its board of directors authorized the use of \$100 million in total for the repurchase of its common shares. The company had 169.5 million shares outstanding as of June 30, 2002. The company said that the shares may be purchased from time to time at prevailing prices in the open-market, by block purchases, or in privately-negotiated transactions.

#### Conference Call

Humana will host a conference call, as well as a virtual slide presentation, at 8:30 a.m. EDT today to discuss its financial results for the quarter and earnings guidance.

All parties interested in the audio only portion of the conference call are invited to dial 888-625-7430. No password is required. The company suggests participants dial in approximately ten minutes in advance of the call.

A live virtual presentation (audio with slides) will be available and may be accessed via Humana's Investor Relations page at <http://www.humana.com>. The company suggests web participants sign on approximately 15 minutes in advance of the call. The company also suggests web participants visit the site well in advance of the call to run a system test and to download any free software needed to view the presentation.

For those unable to participate in the live event, the virtual presentation archive will be available in the Presentations section of the Investor Relations page at <http://www.humana.com>, approximately two hours following the live web cast. An audio recording of the conference call will be available in the Audio Archives located on the Investor Relations page at <http://www.humana.com> approximately two hours after the live call.

This news release contains forward-looking statements. The forward-looking statements made in this news release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be significantly impacted by certain risks and uncertainties described in Humana's Form 10-K for the year ended December 31, 2001, and its Form 10-Q for the quarter ended March 31, 2002, as filed by Humana with the Securities and Exchange Commission.

#### Summary of operating results for the three months ended June 30:

	2002	Adjusted 2001
Revenues	\$2,831,940,000	\$2,497,298,000
Income before income taxes	\$66,705,000	\$52,831,000
Net income	\$45,359,000	\$38,066,000
Basic earnings per common share	\$.28	\$.23
Diluted earnings per common share	\$.27	\$.23

#### Summary of operating results for the six months ended June 30:

	2002	Adjusted 2001
Revenues	\$5,564,522,000	\$4,961,296,000
Income before income taxes	\$135,484,000	\$107,983,000
Net income	\$92,129,000	\$77,622,000
Basic earnings per common share	\$.56	\$.47
Diluted earnings per common share	\$.55	\$.47

Humana Inc., headquartered in Louisville, Ky., is one of the nation's largest publicly traded health benefits companies, with approximately 6.6 million medical members located primarily in 18 states and Puerto Rico. Humana offers coordinated health insurance coverage and related services -- through traditional and Internet-based plans -- to employer groups, government-sponsored plans and individuals.

More information regarding Humana is available via the Internet at <http://www.humana.com>, including online:

- \* Copies of annual report to stockholders;
- \* Securities and Exchange Commission filings including the company's Form 10-K, Form 10-Qs, and proxy statement;
- \* Copy of the most recent investor presentation;
- \* Copies of quarterly earnings press releases;
- \* Audio archive of the most recent earnings release conference call;
- \* Calendar of events (includes upcoming earnings conference call dates, related conference call access number, and planned participation in investor conferences).

Humana Inc.  
In thousands

Ending Medical Membership	June 30,		Percent	
	2002	2001	Difference	Change

Commercial:

Fully insured	2,319.6	2,343.3	(23.7)	(1.0)
ASO	627.5	548.1	79.4	14.5
Total Commercial	2,947.1	2,891.4	55.7	1.9

Government:

Medicare+Choice	354.1	418.0	(63.9)	(15.3)
Medicaid	487.9	488.4	(0.5)	(0.1)
TRICARE	1,761.0	1,725.8	35.2	2.0
TRICARE ASO	1,021.9	939.4	82.5	8.8
Total Government	3,624.9	3,571.6	53.3	1.5
Total ending medical membership	6,572.0	6,463.0	109.0	1.7

Ending Specialty Membership	June 30,		Percent	
	2002	2001	Difference	Change

Commercial:

Dental	1,670.4	1,629.7	40.7	2.5
Group life	529.7	582.5	(52.8)	(9.1)
Short-term disability	22.8	28.5	(5.7)	(20.0)
Total ending specialty membership	2,222.9	2,240.7	(17.8)	(0.8)

Premiums	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001

Commercial:

Fully insured medical	\$1,353,273	\$1,216,664	\$2,696,534	\$2,452,590
Specialty	83,814	74,844	166,541	149,585
Total Commercial	1,437,087	1,291,508	2,863,075	2,602,175

Government:

Medicare+Choice	662,480	734,944	1,334,666	1,469,412
Medicaid	113,234	120,099	224,487	243,902
TRICARE	530,938	293,757	963,323	537,603
Total Government	1,306,652	1,148,800	2,522,476	2,250,917
Total premiums	\$2,743,739	\$2,440,308	\$5,385,551	\$4,853,092

Average Medical Membership

Commercial:

Fully insured	2,323.0	2,356.2	2,332.0	2,384.0
ASO	622.8	546.0	621.6	548.1
Total Commercial	2,945.8	2,902.2	2,953.6	2,932.1

Government:

Medicare+Choice	356.8	422.0	361.5	426.6
Medicaid	485.9	489.9	481.2	505.4
TRICARE	1,764.1	1,293.6	1,747.3	1,182.1
TRICARE ASO	1,018.8	544.8	1,010.8	272.4
Total Government	3,625.6	2,750.3	3,600.8	2,386.5

Total average medical membership	6,571.4	5,652.5	6,554.4	5,318.6
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Humana Inc.

Dollars in thousands, except per share results

	Three months ended June 30,	Six months ended June 30,		
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Consolidated Statements of Operations

	2002	2001	2002	2001
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Revenues:

Premiums	\$2,743,739	\$2,440,308	\$5,385,551	\$4,853,092
Administrative services fees	63,831	26,987	128,844	47,830
Investment and other income	24,370	30,003	50,127	60,374
Total revenues	2,831,940	2,497,298	5,564,522	4,961,296

Operating expenses:

Medical	2,316,188	2,047,245	4,510,727	4,054,374
Selling, general and administrative	414,433	365,088	849,497	733,861
Depreciation	26,306	22,325	52,171	45,130
Goodwill amortization	--	13,640	--	27,150
Other intangible amortization	3,931	2,964	7,862	5,425
Total operating expenses	2,760,858	2,451,262	5,420,257	4,865,940

Income from operations	71,082	46,036	144,265	95,356
Interest expense	4,377	6,845	8,781	14,523
Income before income taxes	66,705	39,191	135,484	80,833
Provision for income taxes	21,346	14,109	43,355	29,100
Net income	\$45,359	\$25,082	\$92,129	\$51,733
Add back: Goodwill amortization expense, net of tax	--	12,984	--	25,889
Adjusted net income	\$45,359	\$38,066	\$92,129	\$77,622

Basic earnings per common share	\$0.28	\$0.15	\$0.56	\$0.32
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Add back: Goodwill amortization expense, net of tax	--	0.08	--	0.16
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Adjusted basic earnings per common share	\$0.28	\$0.23	\$0.56	\$0.47
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Diluted earnings per common share	\$0.27	\$0.15	\$0.55	\$0.31
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Add back: Goodwill amortization expense, net of tax	--	0.08	--	0.16
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Adjusted diluted earnings per common share	\$0.27	\$0.23	\$0.55	\$0.47
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Shares used in basic earnings per common share computation (000)	164,853	164,099	164,555	164,077
Shares used in diluted earnings per common share computation (000)	168,860	166,475	168,274	166,924

Pretax Results by Segment

Commercial, as reported	\$14,893	\$(4,242)	\$40,988	\$10,471
Add back: Goodwill amortization expense	--	8,615	--	17,272
Commercial, as adjusted	\$14,893	\$4,373	\$40,988	\$27,743

Government, as reported	\$51,812	\$43,433	\$94,496	\$70,362
Add back: Goodwill amortization expense	--	5,025	--	9,878
Government, as adjusted	\$51,812	\$48,458	\$94,496	\$80,240

#### Key Ratios

##### Medical expense ratio

Commercial	83.9%	83.3%	82.9%	82.5%
Government	85.0%	84.6%	84.7%	84.8%
Total	84.4%	83.9%	83.8%	83.5%

##### Selling, general, and administrative expense ratio

Commercial	16.4%	17.6%	17.0%	17.7%
Government	13.0%	11.6%	13.6%	11.8%
Total	14.8%	14.8%	15.4%	15.0%

##### EBITDA \*

Commercial	\$35,553	\$24,596	\$81,874	\$68,834
Government	65,766	60,369	122,424	104,227
Total EBITDA	\$101,319	\$84,965	\$204,298	\$173,061

\*EBITDA is defined as earnings (including investment and other income) before interest expense, income taxes, depreciation and amortization.

Humana Inc.

Dollars in thousands, except per share results

	June 30,	March 31,	December 31,
Consolidated Balance Sheets	2002	2002	2001
Assets			
Current assets:			
Cash and cash equivalents	\$450,700	\$485,882	\$651,420
Investment securities	1,337,776	1,409,047	1,389,596
Receivables, net:			
Premiums	454,855	325,611	299,601
Administrative services fees	62,606	46,467	26,667
Deferred income taxes	59,082	68,603	64,221
Other	214,858	206,044	191,433
Total current assets	2,579,877	2,541,654	2,622,938
Property and equipment, net	462,786	467,954	461,761
Other assets:			
Long-term investment securities	301,792	281,132	280,320
Goodwill	776,874	776,874	776,874
Deferred income taxes	14,277	24,620	36,582
Other	225,897	211,673	225,163
Total other assets	1,318,840	1,294,299	1,318,939
Total assets	\$4,361,503	\$4,303,907	\$4,403,638

##### Liabilities and Stockholders' Equity

###### Current liabilities:

Medical and other expenses payable	\$1,194,689	\$1,150,363	\$1,086,386
Trade accounts payable and accrued expenses	472,122	500,049	479,996
Book overdraft	133,279	163,430	152,757
Unearned premium revenues	82,962	87,282	325,040
Short-term debt	265,000	263,000	263,000
Total current liabilities	2,148,052	2,164,124	2,307,179
Long-term debt	323,366	306,955	315,489
Professional liability risks	237,298	251,029	241,431
Other long-term liabilities	31,649	32,147	31,590
Total liabilities	2,740,365	2,754,255	2,895,689

###### Commitments and contingencies

###### Stockholders' equity:

Preferred stock	--	--	--
Common stock	28,579	28,473	28,449

Capital in excess of par value	931,834	923,978	922,439
Retained earnings	670,252	624,893	578,122
Accumulated other comprehensive income (loss)	18,635	3,303	11,670
Unearned restricted stock compensation	(12,209)	(15,042)	(17,882)
Treasury stock, at cost	(15,953)	(15,953)	(14,849)
Total stockholders' equity	1,621,138	1,549,652	1,507,949
Total liabilities and stockholders' equity	\$4,361,503	\$4,303,907	\$4,403,638

Debt to total capitalization ratio    26.6%    26.9%    27.8%

Claims Data:

Number of claims on-hand	513,100	559,600	518,100
Estimated value of claims on-hand	110,300	122,496	125,448

Humana Inc.

Dollars in thousands

	Three months ended June 30,		Six months ended June 30,	
Consolidated Statements of Cash Flows	2002	2001	2002	2001
Cash flows from operating activities				
Net income	\$45,359	\$25,082	\$92,129	\$51,733
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	30,236	38,929	60,032	77,705
Provision for deferred income taxes	10,158	10,110	23,038	25,815
Payment for government audit settlement	--	(8,000)	--	(8,000)
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:				
Receivables	(145,383)	76,658	(191,193)	28,155
Other assets	(25,330)	88	(27,728)	3,980
Medical and other expenses payable	44,326	(86,423)	108,303	(164,529)
Other liabilities	(5,878)	12,909	(16,682)	(13,635)
Unearned premium revenues	(4,320)	(26,753)	(242,078)	(25,384)
Other	7,054	(226)	10,264	(2,652)
Net cash (used in) provided by operating activities	(43,778)	42,374	(183,915)	(26,812)
Timing of Medicare+Choice premium payment from CMS	--	3,496	216,628	(2,454)
Pro forma net cash (used in) provided by operating activities	(43,778)	45,870	32,713	(29,266)
Cash flows from investing activities				
Acquisitions, net of cash and cash equivalents acquired	--	(31,180)	--	(32,950)
Divestitures, net of cash and cash equivalents disposed	--	--	1,109	1,000
Purchases of property and equipment	(24,592)	(26,563)	(57,007)	(54,301)
Proceeds from sale of property and equipment	227	519	277	548
Purchases of marketable securities	(572,962)	(390,098)	(998,097)	(868,678)
Proceeds from maturities of				

marketable securities	62,017	87,873	177,971	256,299
Proceeds from sales of marketable securities	565,540	320,267	869,436	671,717
Net cash provided by (used in) investing activities	30,230	(39,182)	(6,311)	(26,365)

Cash flows from financing activities

Revolving credit agreement (repayments) borrowings	--	10,000	--	--
Net commercial paper conduit borrowings	2,000	--	2,000	--
Net commercial paper repayments	--	(19,766)	--	(20,183)
Debt issue costs	--	--	(559)	--
Change in book overdraft	(30,151)	39,248	(19,478)	18,681
Other	6,517	(275)	7,543	(143)
Net cash (used in) provided by financing activities	(21,634)	29,207	(10,494)	(1,645)

(Decrease) increase in cash and cash equivalents	(35,182)	32,399	(200,720)	(54,822)
Cash and cash equivalents at beginning of period	485,882	570,341	651,420	657,562
Cash and cash equivalents at end of period	\$450,700	\$602,740	\$450,700	\$602,740

SOURCE Humana Inc.

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