



Humana Reports Third Quarter and First Nine Months Of 2002 Results

October 28, 2002

- * Third quarter net income of \$52.3 million, or \$.31 per diluted share**
- * Cash flows from operations of \$82.6 million in the third quarter**
- * Commercial segment medical membership increases 3.1 percent year-to-date**

LOUISVILLE, Ky., Oct 28, 2002 /PRNewswire-FirstCall via COMTEX/ -- Humana Inc. (NYSE: HUM) today reported earnings of \$.31 per diluted share for the third quarter ended September 30, 2002 versus \$.26 adjusted earnings per diluted share for the third 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 nine months were \$.86 compared to adjusted earnings per diluted share of \$.73 a year ago.

Net income for the third quarter of 2002 was \$52.3 million versus adjusted net income of \$43.5 million for the same period in the prior year, a 20.2 percent increase. Net income for the first nine months of \$144.5 million compares with \$121.1 million adjusted net income in the same period a year ago, a 19.3 percent increase.

Income before income taxes for the quarter was up 25.4 percent to \$77.0 million versus adjusted income before income taxes of \$61.4 million a year ago. Comparable amounts for the nine months ended September 30, 2002 and 2001 were \$212.4 million and \$169.3 million, respectively, an improvement of \$43.1 million, or 25.5 percent.

"We are pleased with the improvement in our earnings," said Michael B. McCallister, Humana's president and chief executive officer. "In addition, we have opportunities to further enhance our existing operational processes and thereby align our administrative costs with our current membership levels, enabling improved earnings from the Commercial segment while maintaining our strength in the Government segment."

Humana's pretax margin improved to 2.7 percent in the third quarter of 2002 compared with 2.4 percent in the prior year's quarter, on an adjusted basis.

Revenue and Membership

Revenues in the third quarter were \$2.84 billion versus \$2.61 billion in the third quarter of 2001, an increase of 8.8 percent. Total medical membership at September 30, 2002 was 6,631,400 versus 6,428,600 a year ago.

Third quarter 2002 premium revenues and administrative service fees for the Commercial segment totaled \$1.49 billion, an increase over \$1.33 billion in the third quarter 2001. Medical membership at September 30, 2002 for the Commercial segment of 2,982,200 increased by 71,700 members year-over-year and by 35,100 members sequentially. Year-to-date Commercial segment medical membership has increased 88,400 members, or 3.1 percent. Premium yields for fully insured medical business within the segment continued to fall within a range of 12 to 14 percent for the third quarter of 2002.

Government segment premium revenues and administrative services fees totaled \$1.32 billion in the third quarter of 2002 versus \$1.25 billion for the prior year's quarter. Medicare+Choice membership at September 30, 2002 was 349,000 versus 406,100 at September 30, 2001, a decline of 57,100 members. The company's Medicare+Choice premium yields ranged from 4 to 6 percent during the third quarter of 2002.

TRICARE premium revenues and administrative services fees increased to \$556.0 million in the third quarter versus \$417.7 million in the prior year's quarter. The year-over-year increase in TRICARE premium revenues and administrative services fees primarily is attributable to Congressionally legislated benefits, an increase in eligible beneficiaries, and a decrease in the use of military treatment facilities.

TRICARE's insured membership increased year over year by 43,000, or 2.5 percent, totaling 1,755,700 as of September 30, 2002 versus 1,712,700 at September 30, 2001. TRICARE ASO membership also increased by 95,700, or 10.2 percent, year over year. As of September 30, 2002, 1,038,400 TRICARE members were in ASO programs compared to 942,700 at September 30, 2001.

Medical and SG&A Expenses

The company's medical expense ratio (medical expenses as a percent of premium revenues) for the third quarter was 83.6 percent, versus a ratio of 83.3 percent for the same period in 2001.

Medical cost trends experienced for the third quarter and year-to-date 2002 were in the range of 11 to 13 percent for the commercial fully insured medical line of business and in the range of 4 to 6 percent for the Medicare+Choice line of business.

The company's selling, general and administrative ("SG&A") expense ratio (SG&A expenses as a percent of premiums and administrative service fees) of 15.2 percent in the third quarter of 2002 compares favorably to a ratio of 15.4 percent in the year-ago quarter.

Segment Results

Pre-tax income for the Commercial segment was \$4.5 million in the third quarter of 2002 compared to adjusted pre-tax income of \$6.4 million in the prior year period. Increased unit medical costs in the company's Chicago market resulted in a 250 basis point increase year-over-year in the medical expense ratio for that market, equating to higher medical expenses for Chicago of approximately \$8 million during the third quarter of 2002. Same-store Commercial segment results excluding Chicago improved more than \$7 million on a pre-tax basis when comparing the third quarter of 2002 to the third quarter of 2001.

Pre-tax income for the Government segment increased to \$72.4 million in the third quarter of 2002 from \$54.9 million in the third quarter of 2001. Improving segment pre-tax profits related to incremental TRICARE premiums during the third quarter of 2002.

Days in Claims Payable

Days in claims payable for the third quarter of 2002 of 46.6 were essentially flat with days in claims payable for the second quarter of 2002.

Cash Flows

Normalized cash flows provided by operations totaled \$82.6 million in the third quarter of 2002 compared to normalized cash flows provided by operations of \$94.9 million in the third quarter 2001. (Normalized cash flows provided by 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)). For the first nine months of 2002, normalized cash flows provided by operations were \$115.3 million versus \$65.6 million for the first nine months of 2001, an increase of \$49.7 million.

Guidance

The company now anticipates diluted earnings per share for the fourth quarter of 2002 of \$.32 to \$.33, and continues to anticipate diluted earnings per share of \$1.35 to \$1.40 for 2003.

Conference Call

Humana will host a conference call, as well as a virtual slide presentation, at 10:00 a.m. EST 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 the following documents as filed by Humana with the Securities and Exchange Commission:

- * Form 10-K for the year ended December 31, 2001,
- * Form 10-Qs for the quarters ended March 31, 2002 and June 30, 2002, and
- * Form S-3 (No. 333-100419) filed October 8, 2002.

Summary of operating results for the three months ended September 30:

	2002	Adjusted 2001
Revenues	\$ 2,841,627,000	\$ 2,610,874,000
Income before income taxes	\$ 76,957,000	\$ 61,357,000
Net income	\$ 52,331,000	\$ 43,514,000
Basic earnings per common share	\$.32	\$.27
Diluted earnings per common share	\$.31	\$.26

Summary of operating results for the nine months ended September 30:

	2002	Adjusted 2001
Revenues	\$ 8,406,149,000	\$ 7,572,170,000
Income before income taxes	\$ 212,441,000	\$ 169,340,000
Net income	\$ 144,460,000	\$ 121,136,000
Basic earnings per common share	\$.88	\$.74
Diluted earnings per common share	\$.86	\$.73

Humana Inc., headquartered in Louisville, Kentucky, 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 on-line:

- * Copies of annual reports to stockholders;
- * Securities and Exchange Commission filings including Form 10-Ks, Form

- 10-Qs, proxy statements, Form 4s, Form S-3s, and Form 8-Ks;
- * Copy of 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	September 30,		Percent	
	2002	2001	Difference	Change
Commercial:				
Fully insured	2,323.6	2,332.7	(9.1)	(0.4)
ASO	658.6	577.8	80.8	14.0
Total Commercial	2,982.2	2,910.5	71.7	2.5
Government:				
Medicare+Choice	349.0	406.1	(57.1)	(14.1)
Medicaid	506.1	456.6	49.5	10.8
TRICARE	1,755.7	1,712.7	43.0	2.5
TRICARE ASO	1,038.4	942.7	95.7	10.2
Total Government	3,649.2	3,518.1	131.1	3.7
Total ending medical membership	6,631.4	6,428.6	202.8	3.2

Ending Specialty Membership	September 30,		Percent	
	2002	2001	Difference	Change
Commercial:				
Dental	1,672.8	1,676.4	(3.6)	(0.2)
Group life	522.1	564.2	(42.1)	(7.5)
Short-term disability	23.0	27.1	(4.1)	(15.1)
Total ending specialty membership	2,217.9	2,267.7	(49.8)	(2.2)

Premiums	Three months ended		Nine months ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Commercial:				
Fully insured medical	\$1,379,897	\$1,230,769	\$4,076,431	\$3,683,358
Specialty	84,806	76,954	251,347	226,540
Total Commercial	1,464,703	1,307,723	4,327,778	3,909,898
Government:				
Medicare+Choice	647,265	721,079	1,981,931	2,190,491
Medicaid	118,902	113,991	343,389	357,893
TRICARE	521,466	398,690	1,484,789	936,293
Total Government	1,287,633	1,233,760	3,810,109	3,484,677
Total premiums	\$2,752,336	\$2,541,483	\$8,137,887	\$7,394,575

Percentage of Ending Membership Under Capitation Arrangements	September 30,		
	2002	2001	Difference
Fully-insured Commercial:			
Capitated HMO - hospital system based	6.5%	6.8%	-0.3%
Capitated HMO - physician group based	3.0%	4.0%	-1.0%
Risk-sharing	3.0%	3.6%	-0.6%
Total risk-sharing arrangements	12.5%	14.4%	-1.9%
Fee-for-service (no risk-sharing)	87.5%	85.6%	1.9%

Total fully-insured Commercial	100.0%	100.0%	n/a
Medicare+Choice:			
Capitated HMO - hospital system based	13.5%	14.5%	-1.0%
Capitated HMO - physician group based	3.3%	4.4%	-1.1%
Risk-sharing	42.8%	30.5%	12.3%
Total risk-sharing arrangements	59.6%	49.4%	10.2%
Fee-for-service (no risk-sharing)	40.4%	50.6%	-10.2%
Total Medicare+Choice	100.0%	100.0%	n/a

Providers under hospital-based capitated HMO arrangements generally receive a monthly payment for all of the services within their system for their HMO membership. Providers under physician group-based capitated HMO arrangements generally have subcontracted directly with hospitals and specialist physicians, and are responsible for reimbursement to their downstream providers for a portion of the medical expenses for their HMO membership.

Providers under risk-sharing arrangements have assumed some level of risk for all or a portion of the medical costs of their HMO membership. Although these arrangements do include capitation payments for services rendered, we process substantially all of the claims under these arrangements.

Humana Inc.

Dollars in thousands, except per share results

	Three months ended		Nine months ended	
	September 30,		September 30,	
Consolidated Statements of Operations	2002	2001	2002	2001
Revenues:				
Premiums	\$2,752,336	\$2,541,483	\$8,137,887	\$7,394,575
Administrative services fees	61,056	39,943	189,900	87,773
Investment and other income	28,235	29,448	78,362	89,822
Total revenues	2,841,627	2,610,874	8,406,149	7,572,170
Operating expenses:				
Medical	2,301,021	2,117,283	6,811,748	6,171,657
Selling, general and administrative	429,019	398,799	1,278,516	1,132,660
Depreciation	26,592	23,497	78,763	68,627
Goodwill amortization	--	13,966	--	41,116
Other intangible amortization	3,931	3,993	11,793	9,418
Total operating expenses	2,760,563	2,557,538	8,180,820	7,423,478
Income from operations	81,064	53,336	225,329	148,692
Interest expense	4,107	5,945	12,888	20,468
Income before income taxes	76,957	47,391	212,441	128,224
Provision for income taxes	24,626	17,061	67,981	46,161
Net income	\$52,331	\$30,330	\$144,460	\$82,063
Add back: Goodwill amortization expense, net of tax	--	13,184	--	39,073
Adjusted net income	\$52,331	\$43,514	\$144,460	\$121,136
Basic earnings per common share				
	\$0.32	\$0.18	\$0.88	\$0.50
Add back: Goodwill amortization expense, net of tax	--	0.08	--	0.24
Adjusted basic earnings per common share	\$0.32	\$0.27	\$0.88	\$0.74

Diluted earnings per common share	\$0.31	\$0.18	\$0.86	\$0.49
Add back: Goodwill amortization expense, net of tax	--	0.08	--	0.23
Adjusted diluted earnings per common share	\$0.31	\$0.26	\$0.86	\$0.73

Shares used in basic earnings per common share computation (000)	163,933	164,110	164,348	164,088
Shares used in diluted earnings per common share computation (000)	167,534	166,743	168,242	166,864

Pretax Results by Segment

Commercial, as reported	\$4,540	\$(1,728)	\$45,528	\$8,743
Add back: Goodwill amortization expense	--	8,155	--	25,427
Commercial, as adjusted	\$4,540	\$6,427	\$45,528	\$34,170

Government, as reported	\$72,417	\$49,119	\$166,913	\$119,481
Add back: Goodwill amortization expense	--	5,811	--	15,689
Government, as adjusted	\$72,417	\$54,930	\$166,913	\$135,170

Key Ratios

Medical expense ratio

Commercial	84.3%	83.2%	83.4%	82.7%
Government	82.8%	83.4%	84.1%	84.3%
Total	83.6%	83.3%	83.7%	83.5%

Selling, general, and administrative expense ratio

Commercial	17.0%	17.5%	17.0%	17.6%
Government	13.3%	13.2%	13.5%	12.3%
Total	15.2%	15.4%	15.4%	15.1%

EBITDA *

Commercial	\$25,986	\$26,049	\$107,860	\$94,883
Government	85,601	68,743	208,025	172,970
Total EBITDA	\$111,587	\$94,792	\$315,885	\$267,853

*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

	September 30,	June 30,	December 31,
Consolidated Balance Sheets	2002	2002	2001
Assets			
Current assets:			
Cash and cash equivalents	\$375,736	\$450,700	\$651,420
Investment securities	1,420,524	1,337,776	1,389,596
Receivables, net:			
Premiums	489,518	454,855	299,601
Administrative services fees	67,762	62,606	26,667
Deferred income taxes	50,691	59,082	64,221
Other	180,272	214,858	191,433
Total current assets	2,584,503	2,579,877	2,622,938
Property and equipment, net	462,453	462,786	461,761

Other assets:			
Long-term investment securities	317,346	301,792	280,320
Goodwill	776,874	776,874	776,874
Deferred income taxes	147	14,277	36,582
Other	238,007	225,897	225,163
Total other assets	1,332,374	1,318,840	1,318,939
Total assets	\$4,379,330	\$4,361,503	\$4,403,638
Liabilities and Stockholders' Equity			
Current liabilities:			
Medical and other expenses payable	\$1,164,431	\$1,194,689	\$1,086,386
Trade accounts payable and accrued expenses	475,885	472,122	479,996
Book overdraft	104,402	133,279	152,757
Unearned premium revenues	89,977	82,962	325,040
Short-term debt	265,000	265,000	263,000
Total current liabilities	2,099,695	2,148,052	2,307,179
Long-term debt	334,061	323,366	315,489
Professional liability risks	247,690	237,298	241,431
Other long-term liabilities	30,440	31,649	31,590
Total liabilities	2,711,886	2,740,365	2,895,689
Commitments and contingencies			
Stockholders' equity:			
Preferred stock	--	--	--
Common stock	28,551	28,579	28,449
Capital in excess of par value	930,942	931,834	922,439
Retained earnings	722,583	670,252	578,122
Accumulated other comprehensive income	35,819	18,635	11,670
Unearned restricted stock compensation	(9,059)	(12,209)	(17,882)
Treasury stock, at cost	(41,392)	(15,953)	(14,849)
Total stockholders' equity	1,667,444	1,621,138	1,507,949
Total liabilities and stockholders' equity	\$4,379,330	\$4,361,503	\$4,403,638

Debt to total capitalization ratio 26.4% 26.6% 27.8%

Claims Data:
Number of claims on-hand 496,200 513,100 518,100
Estimated value of claims on-hand \$108,800 \$110,300 \$125,448

Humana Inc.
Dollars in thousands

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Consolidated Statements of Cash Flows				
Cash flows from operating activities				
Net income	\$52,331	\$30,330	\$144,460	\$82,063
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	30,523	41,456	90,556	119,161
Provision for deferred income taxes	11,183	14,473	34,221	40,288
Payment for government audit settlement	--	--	--	(8,000)
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:				

Receivables	(39,819)	(13,904)	(231,012)	14,251
Other assets	27,996	9,859	268	13,839
Medical and other expenses payable	(30,258)	8,622	78,045	(155,907)
Other liabilities	21,424	23,871	4,742	10,236
Unearned premium revenues	7,015	(30,107)	(235,063)	(55,491)
Other	2,218	2,050	12,481	(602)
Net cash provided by (used in) operating activities	82,613	86,650	(101,302)	59,838
Timing of Medicare+Choice premium payment from CMS	--	8,220	216,628	5,766
Normalized net cash provided by operating activities	82,613	94,870	115,326	65,604

Cash flows from investing activities

Acquisitions, net of cash and cash equivalents acquired	--	--	--	(32,700)
Divestitures, net of cash and cash equivalents disposed	--	--	1,109	1,050
Purchases of property and equipment	(26,851)	(28,120)	(83,581)	(82,173)
Purchases of marketable securities	(641,706)	(490,998)	(1,639,803)	(1,359,676)
Proceeds from maturities of marketable securities	95,228	165,199	273,199	421,498
Proceeds from sales of marketable securities	469,688	292,803	1,339,124	964,520
Net cash used in investing activities	(103,641)	(61,116)	(109,952)	(87,481)

Cash flows from financing activities

Revolving credit agreement (repayments) borrowings	--	(250,000)	--	(250,000)
Net commercial paper conduit borrowings	--	--	2,000	--
Net commercial paper repayments	--	(59,769)	--	(79,952)
Proceeds from issuance of senior notes	--	299,277	--	299,277
Proceeds from other borrowings	--	5,700	--	5,700
Debt issue costs	--	(3,240)	(559)	(3,240)
Change in book overdraft	(28,877)	(26,311)	(48,355)	(7,630)
Common stock repurchases	(25,439)	(1,867)	(25,439)	(1,867)
Other	380	(231)	7,923	(374)
Net cash used in financing activities	(53,936)	(36,441)	(64,430)	(38,086)

Decrease in cash and cash equivalents	(74,964)	(10,907)	(275,684)	(65,729)
Cash and cash equivalents at beginning of period	450,700	602,740	651,420	657,562
Cash and cash equivalents at end of period	\$375,736	\$591,833	\$375,736	\$591,833

SOURCE Humana Inc.

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