
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

61-0647538
(I.R.S. Employer
Identification Number)

500 West Main Street
Louisville, Kentucky 40202
(Address of principal executive offices, including zip code)

(502) 580-1000
(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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Class of Common Stock	Outstanding at October 31, 2004
\$0.16 2/3 par value	159,407,737 shares

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Humana Inc.
FORM 10-Q
SEPTEMBER 30, 2004

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Item 1. Financial Statements

Humana Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2004	December 31, 2003
(in thousands, except share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 375,090	\$ 931,404
Investment securities	2,332,522	1,676,642
Receivables, less allowance for doubtful accounts of \$29,475 at September 30, 2004 and \$40,400 at December 31, 2003:		
Premiums	405,067	452,404
Administrative services fees	19,803	13,583
Other	273,240	247,298
Total current assets	3,405,722	3,321,331
Property and equipment, net	390,735	416,472
Other assets:		
Long-term investment securities	333,796	319,167
Goodwill	859,734	776,874
Other	421,623	459,479
Total other assets	1,615,153	1,555,520
Total assets	\$ 5,411,610	\$ 5,293,323
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical and other expenses payable	\$ 1,436,135	\$ 1,272,156
Trade accounts payable and accrued expenses	504,892	440,340
Book overdraft	116,106	219,054
Unearned revenues	132,659	333,071
Total current liabilities	2,189,792	2,264,621
Long-term debt	630,912	642,638
Other long-term liabilities	568,911	550,115
Total liabilities	3,389,615	3,457,374
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par; 10,000,000 shares authorized, none issued	—	—
Common stock, \$0.16 2/3 par; 300,000,000 shares authorized; 175,062,193 shares issued at September 30, 2004 and 173,909,127 shares issued at December 31, 2003	29,177	28,984
Capital in excess of par value	994,975	974,975
Retained earnings	1,182,697	949,811
Accumulated other comprehensive income	13,797	16,909
Unearned stock compensation	(203)	(754)
Treasury stock, at cost, 15,689,251 shares at September 30, 2004 and 12,018,281 shares at December 31, 2003	(198,448)	(133,976)
Total stockholders' equity	2,021,995	1,835,949
Total liabilities and stockholders' equity	\$ 5,411,610	\$ 5,293,323

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
(in thousands, except per share results)				
Revenues:				
Premiums	\$3,083,554	\$3,016,298	\$9,566,447	\$8,772,652
Administrative services fees	59,837	66,984	219,420	199,788
Investment and other income	32,882	28,483	108,833	100,999
Total revenues	<u>3,176,273</u>	<u>3,111,765</u>	<u>9,894,700</u>	<u>9,073,439</u>
Operating expenses:				
Medical	2,550,911	2,528,123	8,024,167	7,344,534
Selling, general and administrative	460,171	458,381	1,416,695	1,371,196
Depreciation and amortization	31,238	27,112	84,715	100,232
Total operating expenses	<u>3,042,320</u>	<u>3,013,616</u>	<u>9,525,577</u>	<u>8,815,962</u>
Income from operations	133,953	98,149	369,123	257,477
Interest expense	6,480	4,737	16,524	12,473
Income before income taxes	127,473	93,412	352,599	245,004
Provision for income taxes	43,170	31,293	119,713	82,379
Net income	<u>\$ 84,303</u>	<u>\$ 62,119</u>	<u>\$ 232,886</u>	<u>\$ 162,625</u>
Basic earnings per common share	<u>\$ 0.53</u>	<u>\$ 0.39</u>	<u>\$ 1.45</u>	<u>\$ 1.03</u>
Diluted earnings per common share	<u>\$ 0.52</u>	<u>\$ 0.38</u>	<u>\$ 1.43</u>	<u>\$ 1.01</u>

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30,	
	2004	2003
(in thousands)		
Cash flows from operating activities		
Net income	\$ 232,886	\$ 162,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Writedown of property and equipment	—	17,233
Depreciation and amortization	84,715	100,232
Provision for deferred income taxes	27,545	30,213
Changes in operating assets and liabilities, net of effect of business acquired:		
Receivables	106,709	13,516
Other assets	(18,776)	42,435
Medical and other expenses payable	92,916	154,435
Other liabilities	26,675	(151,363)
Unearned revenues	(204,426)	(227,596)
Other, net	(19,920)	(18,810)
Net cash provided by operating activities	328,324	122,920
Cash flows from investing activities		
Acquisition, net of cash and cash equivalents acquired	(115,972)	—
Purchases of property and equipment	(72,900)	(64,980)
Proceeds from sales of property and equipment	28,972	2,483
Purchases of investment securities	(3,614,781)	(3,659,394)
Maturities of investment securities	840,275	585,461
Proceeds from sales of investment securities	2,203,853	2,768,446
Net cash used in investing activities	(730,553)	(367,984)
Cash flows from financing activities		
Net commercial paper conduit repayments	—	(265,000)
Proceeds from issuance of senior notes	—	299,139
Common stock repurchases	(64,472)	(44,147)
Proceeds from swap exchange	—	31,556
Change in book overdraft	(102,948)	123,869
Proceeds from stock option exercises and other	13,335	14,127
Net cash (used in) provided by financing activities	(154,085)	159,544
Decrease in cash and cash equivalents	(556,314)	(85,520)
Cash and cash equivalents at beginning of period	931,404	721,357
Cash and cash equivalents at end of period	\$ 375,090	\$ 635,837
Supplemental cash flow disclosures:		
Interest payments	\$ 22,663	\$ 11,324
Income tax payments, net	\$ 44,922	\$ 43,335

See accompanying notes to condensed consolidated financial statements.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

(1) Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America, or those normally made in an Annual Report on Form 10-K. References throughout this document to “we,” “us,” “our,” the “Company,” and “Humana,” mean Humana Inc. and all entities we own. For further information, the reader of this Form 10-Q should refer to our Form 10-K for the year ended December 31, 2003, that was filed with the Securities and Exchange Commission, or the SEC, on March 5, 2004.

The preparation of our condensed consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The areas involving the most significant use of estimates are the estimation of medical expenses payable, the recognition of revenue related to our TRICARE contracts, the valuation and related impairment recognition of investment securities, and the valuation and related impairment recognition of long-lived assets, including goodwill. Although our estimates are based on knowledge of current events and anticipated future events, actual results may ultimately differ materially from those estimates. Refer to “Critical Accounting Policies and Estimates” in Humana’s 2003 Annual Report on Form 10-K for information on accounting policies that the Company considers critical in preparing its Consolidated Financial Statements.

The financial information has been prepared in accordance with our customary accounting practices and has not been audited. In our opinion, the information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature.

(2) Significant Accounting Policies

Stock-Based Compensation

We have stock-based employee compensation plans, which are described more fully in Note 10 to the consolidated financial statements in Humana’s 2003 Annual Report on Form 10-K. We account for our stock option plans under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations, or APB No. 25. No employee compensation cost is reflected in net income related to fixed-based stock option awards because these options had an exercise price equal to the market value of the underlying common stock on the date of grant. Generally, if a fixed-based stock option award is subsequently modified, compensation expense, if any, is recorded for the amount that the market price of Humana common stock exceeds the option’s exercise price on the date the option is modified. Compensation expense is recorded for restricted stock grants over their vesting periods based on fair value, which is equal to the market price of Humana common stock on the date of the grant.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Unaudited

The effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, to our fixed-based stock option and restricted stock awards was as follows for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(in thousands, except per share results)			
Net income, as reported	\$84,303	\$62,119	\$232,886	\$162,625
Add: Stock-based employee compensation expense included in reported net income, net of related tax	591	644	1,463	3,448
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax	(3,664)	(1,925)	(9,926)	(7,085)
Adjusted net income	\$81,230	\$60,838	\$224,423	\$158,988
Earnings per share:				
Basic, as reported	\$ 0.53	\$ 0.39	\$ 1.45	\$ 1.03
Basic, pro forma	\$ 0.51	\$ 0.38	\$ 1.40	\$ 1.00
Diluted, as reported	\$ 0.52	\$ 0.38	\$ 1.43	\$ 1.01
Diluted, pro forma	\$ 0.50	\$ 0.37	\$ 1.38	\$ 0.99

New Accounting Standards

In January 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB 51*, or FIN 46. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities, or VIEs) and how to determine when and which business enterprise should consolidate the VIE (the primary beneficiary). In December 2003, the FASB issued FIN 46-R, *Consolidation of Variable Interest Entities — an interpretation of ARB 51 (revised December 2003)*, which amended certain provisions of FIN 46 and delayed implementation for entities that are not considered special purpose entities until the first quarter of 2004. The adoption of FIN 46 and FIN 46-R did not have a material impact on our financial position, results of operations, or cash flows.

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Unaudited

(3) Acquisition

On April 1, 2004, we acquired Ochsner Health Plan, or Ochsner, from the Ochsner Clinic Foundation. Ochsner, a Louisiana health plan, added approximately 152,600 Commercial medical members, primarily in fully insured large group accounts, and approximately 33,100 members in the MedicareAdvantage program. This acquisition enabled us to enter a new market with significant market share which should facilitate new sales opportunities in this and surrounding markets, including Houston, Texas.

We paid \$131.3 million in cash, including transaction costs. Our estimate of the fair value of the tangible assets(liabilities) as of the acquisition date is as follows:

	(in thousands)
Cash and cash equivalents	\$ 15,270
Investment securities	84,527
Premiums receivable and other current assets	20,616
Property and equipment and other assets	1,085
Medical and other expenses payable	(71,063)
Other current liabilities	(21,604)
Other liabilities	(3,183)
	\$ 25,648

The purchase price exceeded the estimated fair value of the net tangible assets acquired by approximately \$105.7 million. We allocated the excess purchase price over the fair value of the net tangible assets acquired to other intangible assets, estimated at \$22.8 million, and goodwill, estimated at \$82.9 million. The other intangible assets, which consist primarily of subscriber and provider contracts, have a weighted-average useful life of approximately 13 years. The other intangible assets and goodwill are not deductible for income tax purposes. We used an independent third party valuation specialist firm to assist us in evaluating the fair value of assets acquired.

The purchase price is subject to adjustment in accordance with the terms and conditions of the purchase agreement. As early as the fourth quarter of 2004, the purchase price will be adjusted to reflect changes in net equity from the amount estimated as of the date the purchase agreement was signed in December 2003 until the transaction closed on April 1, 2004, giving effect for items such as higher cash balances from earnings and changes in Ochsner's ultimate claims liability as of April 1, 2004 using claims paid data during a six month run-out period. The amount of this purchase price adjustment will be allocated to goodwill and is the final adjustment contemplated by the Ochsner acquisition agreement.

The results of operations and financial condition of Ochsner have been included in our condensed consolidated statements of income and condensed consolidated balance sheets since the acquisition date. The pro forma financial information presented below assumes that the acquisition of Ochsner had occurred as of the beginning of each respective period. The pro forma adjustments include the pro forma effect of amortization of other intangible assets arising from the purchase price allocation and interest expense related to the assumed financing of the cash purchase price and the associated income tax effects of the pro forma adjustments. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Ochsner acquisition been consummated at the beginning of the respective periods.

	For the three months ended September 30, 2003	For the nine months ended September 30,	
		2004	2003
		(in thousands)	
Revenues	\$3,287,972	\$ 10,080,706	\$ 9,598,593
Net income	\$ 64,167	\$ 238,627	\$ 167,815
Earnings per share:			
Basic	\$ 0.40	\$ 1.48	\$ 1.06
Diluted	\$ 0.39	\$ 1.47	\$ 1.04

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Unaudited

(4) Long-lived Asset Impairment

A decision to close the Jacksonville, Florida customer service center prompted a review for the possible impairment of long-lived assets associated with this center. Under a transition plan, we continued to use the long-lived assets of the Jacksonville customer service center until mid-2003, the completion date for consolidating this customer service center. The long-lived assets of this customer service center were supported by the future cash flows expected to result from members serviced by that center. Cash flows from members serviced by the center represented the lowest level of independently identifiable cash flows. For example, cash flows from members located primarily in the state of Florida and serviced by the Jacksonville service center supported the Jacksonville center's long-lived assets until those members' service was transitioned elsewhere.

Our impairment review during the first quarter of 2003 indicated that estimated undiscounted cash flows expected to result from the remaining use of the Jacksonville, Florida customer service center long-lived assets, primarily a building, were insufficient to recover their carrying value. Accordingly, we reduced the carrying value of these long-lived assets to their estimated fair value resulting in non-cash impairment expenses of \$17.2 million (\$10.5 million after tax) during the first quarter of 2003.

We used an independent third party appraisal to assist us in evaluating the fair value of the building. The non-cash impairment expenses are included with selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

Based upon our decision to sell the building previously used in our Jacksonville customer service operations, we classified it as held for sale and ceased depreciating the building effective July 1, 2003. The impact of ceasing depreciation of the building was not material to our results of operations. During the first quarter of 2004, we completed the sale of the Jacksonville building, recording proceeds of \$14.8 million and a pretax loss of \$0.2 million.

Accelerated Depreciation

After finalizing plans during the first quarter of 2003 to abandon software used in our operations by March 2003, we reduced the estimated useful life of the software effective January 1, 2003. Accordingly, we accelerated the depreciation of the remaining software balance of approximately \$13.5 million (\$8.3 million after tax) during the first quarter of 2003.

After finalizing plans during the third quarter of 2004 to abandon some enrollment software by December 31, 2004, we reduced the estimated useful life of the software effective July 1, 2004. Accordingly, we accelerated the depreciation of the remaining software balance. The change in the useful life increased depreciation expense during the third quarter of 2004 by approximately \$4.0 million (\$2.4 million after tax) and will increase depreciation expense for the full year 2004 by approximately \$9.3 million (\$5.7 million after tax).

The allocation of the non-cash pretax expenses related to the writedown and accelerated depreciation of certain long-lived assets to our Commercial and Government segments was as follows for the nine months ended September 30, 2004 and 2003:

	Nine months ended September 30, 2004		
	Commercial	Government	Total
	(in thousands)		
Line item affected:			
Depreciation and amortization	\$ 3,990	\$ —	\$ 3,990
Total pretax impact	\$ 3,990	\$ —	\$ 3,990
	Nine months ended September 30, 2003		
	Commercial	Government	Total
	(in thousands)		
Line item affected:			
Selling, general and administrative	\$ 4,325	\$ 12,908	\$17,233
Depreciation and amortization	13,527	—	13,527
Total pretax impact	\$ 17,852	\$ 12,908	\$30,760

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Unaudited

(5) Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill, by operating segment, for the nine months ended September 30, 2004 were as follows:

	Commercial	Government	Total
	(in thousands)		
Balance at December 31, 2003	\$633,211	\$ 143,663	\$776,874
Ochsner acquisition	49,716	33,144	82,860
Balance at September 30, 2004	\$682,927	\$ 176,807	\$859,734

Other intangible assets primarily relate to acquired subscriber, provider, and government contracts, and the cost of acquired licenses and are included with other long-term assets in the condensed consolidated balance sheets. Amortization expense for other intangible assets was approximately \$8.1 million for the nine months ended September 30, 2004 and \$9.2 million for the nine months ended September 30, 2003. The following table presents our estimate of amortization expense for the remaining three months of 2004, and for each of the five succeeding fiscal years:

	(in thousands)
For the three month period ending December 31, 2004	\$ 2,438
For the years ending December 31,:	
2005	\$ 7,368
2006	\$ 2,092
2007	\$ 2,030
2008	\$ 1,905
2009	\$ 1,893

The following table presents details of our other intangible assets included in other non-current assets in the accompanying condensed consolidated balance sheets at September 30, 2004 and December 31, 2003:

	September 30, 2004			December 31, 2003		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(in thousands)					
Other intangible assets:						
Subscriber contracts	\$ 97,256	\$ 80,804	\$16,452	\$ 85,496	\$ 75,194	\$10,302
Provider contracts	22,428	10,242	12,186	12,128	8,075	4,053
Government contracts	—	—	—	11,820	11,820	—
Licenses and other	5,790	1,668	4,122	5,065	1,376	3,689
Total other intangible assets	\$125,474	\$ 92,714	\$32,760	\$114,509	\$ 96,465	\$18,044

(6) Comprehensive Income

The following table presents details supporting the computation of comprehensive income for the three and nine months ended September 30, 2004 and 2003:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(in thousands)			
Net income	\$ 84,303	\$62,119	\$232,886	\$162,625
Net unrealized investment gains (losses), net of tax	30,553	(9,753)	(3,112)	(2,369)
Comprehensive income, net of tax	\$114,856	\$52,366	\$229,774	\$160,256

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Unaudited

(7) Earnings Per Common Share

We compute basic earnings per common share on the basis of the weighted average number of unrestricted common shares outstanding. Diluted earnings per common share is computed on the basis of the weighted average number of unrestricted common shares outstanding plus the dilutive effect of outstanding employee stock options and restricted shares using the treasury stock method. There were no adjustments required to be made to net income for purposes of computing basic or diluted earnings per common share.

The following table presents details supporting the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2004 and 2003:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(in thousands, except per share results)			
Net income available for common stockholders	\$ 84,303	\$ 62,119	\$232,886	\$162,625
Weighted average outstanding shares of common stock used to compute basic earnings per common share	159,308	159,454	160,697	158,202
Dilutive effect of:				
Stock options	1,662	1,713	1,824	872
Restricted stock	27	1,382	43	2,310
Shares used to compute diluted earnings per common share	160,997	162,549	162,564	161,384
Basic earnings per common share	\$ 0.53	\$ 0.39	\$ 1.45	\$ 1.03
Diluted earnings per common share	\$ 0.52	\$ 0.38	\$ 1.43	\$ 1.01
Number of antidilutive stock options excluded from computation	4,105	1,568	2,833	4,427

(8) Stock Repurchase Plan

In July 2003, the Board of Directors authorized the use of up to \$100 million for the repurchase of our common shares exclusive of shares repurchased in connection with employee stock plans. The shares may be purchased from time to time at prevailing prices in the open market or in privately negotiated transactions. For the nine months ended September 30, 2004, 3,636,000 common shares were acquired in open market transactions at an aggregate cost of \$63.6 million, or an average of \$17.49 per share. As of November 1, 2004, \$36.4 million of the July 2003 authorization remains available for share repurchases until January 2005, the expiration date of the authorization. See also the chart in Part II, Item 2 on page 38.

(9) Long-term Debt

Long-term debt outstanding was as follows at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
	(in thousands)	
6.30% senior, unsecured notes due 2018, net of unamortized discount of \$795 at September 30, 2004 and \$838 at December 31, 2003	\$ 299,205	\$ 299,162
7.25% senior, unsecured notes due 2006, net of unamortized discount of \$268 at September 30, 2004 and \$376 at December 31, 2003	299,733	299,624
Fair value of interest rate swap agreements	8,695	12,754
Deferred gain from interest rate swap exchange	18,832	26,175
Total senior notes	626,465	637,715
Other long-term borrowings	4,447	4,923
Total long-term debt	\$ 630,912	\$ 642,638

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Unaudited

Senior Notes

In order to term-out our short-term debt and take advantage of historically low interest rates, we issued \$300 million 6.30% senior notes due August 1, 2018 on August 5, 2003. Our net proceeds, reduced for the cost of the offering, were approximately \$295.8 million. The net proceeds were used for general corporate purposes, including the funding of our short term cash needs.

In order to hedge the risk of changes in the fair value of our \$300 million 6.30% senior notes and our \$300 million 7.25% senior notes attributable to fluctuations in interest rates, we entered into interest rate swap agreements. Interest rate swap agreements, which are considered derivatives, are contracts that exchange interest payments on a specified principal amount, or notional amount, for a specified period. The interest rate swap agreements have the same critical terms as our 6.30% senior notes and our 7.25% senior notes. Changes in the fair value of the 6.30% or 7.25% senior notes and the swap agreements due to changing interest rates are assumed to offset each other completely, resulting in no impact to earnings from hedge ineffectiveness. Our swap agreements are recognized in our condensed consolidated balance sheet at fair value with an equal and offsetting adjustment to the carrying value of our senior notes. The fair value of our interest rate swap agreements are estimated based on quoted market prices of comparable agreements, and reflect the amounts we would receive (or pay) to terminate the agreements at the reporting date.

In June 2003, we recorded a deferred gain and received proceeds of \$31.6 million in exchange for new swap agreements discussed above related to our 7.25% senior notes. The corresponding deferred swap gain of \$31.6 million is being amortized to reduce interest expense over the remaining term of the 7.25% senior notes. The carrying value of our 7.25% senior notes has been increased \$18.8 million by the remaining deferred swap gain balance at September 30, 2004.

Our interest rate swap agreements exchange the fixed interest rate under our 6.30% and 7.25% senior notes for a variable interest rate. At September 30, 2004, the effective interest rate was 2.90% for the 6.30% senior notes and 3.86% for the 7.25% senior notes, including the amortization of the deferred swap gain. The \$300 million swap agreements for the 6.30% senior notes mature on August 1, 2018, and the \$300 million swap agreements for the 7.25% senior notes mature on August 1, 2006, and each has the same critical terms as the related senior notes.

At September 30, 2004, the \$8.7 million fair value of our swap agreements is included in other long-term assets. Likewise, the carrying value of our senior notes has been increased \$8.7 million to reflect its fair value. The counterparties to our swap agreements are major financial institutions with which we also have other financial relationships.

Credit Agreement

On September 29, 2004, we replaced our existing credit agreements with a new 5-year \$600 million unsecured revolving credit agreement which will expire in September 2009. We previously maintained two unsecured revolving credit agreements consisting of a \$265 million, 4-year revolving credit agreement and a \$265 million, 364-day revolving credit agreement. There was no balance outstanding under the new agreement at September 30, 2004.

Under the new agreement, at our option, we can borrow on either a competitive advance basis or a revolving credit basis. The revolving credit portion of the agreement bears interest at either a fixed rate or floating rate based on LIBOR plus a spread. The spread, which varies depending on our credit ratings, ranges from 50 to 112.5 basis points. We also pay an annual facility fee regardless of utilization. This facility fee, initially 15 basis points, may fluctuate between 12.5 and 37.5 basis points, depending upon our credit ratings. In addition, a utilization fee of 12.5 basis points is payable for any day in which borrowings under the facility exceeds 50% of the total \$600 million commitment. The competitive advance portion of any borrowings will bear interest at market rates prevailing at the time of borrowing on either a fixed rate or a floating rate basis, at our option.

The 5-year \$600 million credit agreement contains customary restrictive and financial covenants as well as customary events of default, including financial covenants regarding the maintenance of net worth, minimum interest coverage, and maximum leverage ratios. At September 30, 2004, we were in compliance with all applicable financial covenant requirements. The terms of each of these credit agreements also include standard provisions

Humana Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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related to conditions of borrowing, including a customary material adverse effect clause which could limit our ability to borrow. We have not experienced a material adverse effect, and we know of no circumstances or events which would be reasonably likely to result in a material adverse effect. We do not believe the material adverse effect clause poses a material funding risk to Humana in the future.

We have other relationships, including financial advisory and banking, with some of the parties to the new agreement.

Commercial Paper Program

We maintain and may issue short-term debt securities under a commercial paper program when market conditions allow. The program is backed by our credit agreement described above. Aggregate borrowings under both the new credit agreement and commercial paper program generally will not exceed \$600 million.

In connection with the new credit arrangement, the conduit commercial paper program allowing indirect access to the commercial paper market through a third party was cancelled.

At September 30, 2004, we had no commercial paper borrowings outstanding.

Other Borrowings

Other borrowings of \$4.4 million at September 30, 2004 represent financing for the renovation of a building, bear interest at 2% per annum, are collateralized by the building, and are payable in various installments through 2014.

Shelf Registration

On April 1, 2003, our universal shelf registration became effective with the Securities and Exchange Commission. This allows us to register debt or equity securities, from time to time, with the amount, price and terms to be determined at the time of the sale. After the issuance of our \$300 million, 6.30% senior notes in August 2003, we have up to \$300 million remaining from a total of \$600 million under the universal shelf registration. The universal shelf registration allows us to use the net proceeds from any future sales of our securities for our operations and for other general corporate purposes, including repayment or refinancing of borrowings, working capital, capital expenditures, investments, acquisitions, or the repurchase of our outstanding securities.

(10) Guarantees and Contingencies

Indemnifications and Guarantees

Our operating lease of an airplane, which expires January 1, 2010, provides for a residual value payment of no more than \$4.8 million at the end of the lease term. At the end of the term we have the right to exercise a purchase option or the airplane can be sold to a third party. If we decide not to exercise our purchase option, we must pay the lessor a maximum amount of \$4.8 million. This amount will be reduced by the net sales proceeds in excess of \$4.2 million from the sale of the airplane to a third party.

Through indemnity agreements approved by the state regulatory authorities, certain of our regulated subsidiaries generally are guaranteed by Humana Inc., our parent company, in the event of insolvency for (1), member coverage for which premium payment has been made prior to insolvency; (2), benefits for members then hospitalized until discharged; and (3), payment to providers for services rendered prior to insolvency. Our parent also has guaranteed the obligations of our TRICARE subsidiaries.

In the ordinary course of business, we enter into contractual arrangements under which we may agree to indemnify a third party to such arrangement from any losses incurred relating to the services they perform on behalf of us, or for losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to past performance. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

Government Contracts

Our HMO, PPO and Fee-For-Service products covered under the Medicare Advantage contracts with the federal government are renewed for a one-year term each December 31 unless notice of termination is received at least 90 days prior thereto. We have filed our renewal contracts. In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act, or MMA, was signed into law. We believe MMA offers new opportunities in our HMO, PPO and Fee-For-Service Medicare products. We intend to make additional investments in the Medicare Advantage program to enhance our ability to participate.

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On November 1, 2004, approximately 1 million members transitioned to our TRICARE South Region contract which we were awarded in 2003. This was the final step in the transition of the implementation of the South Region contract. In total, the TRICARE South Region contract now covers approximately 2.8 million beneficiaries. The South Region is one of the three regions in the United States as defined by the Department of Defense. The contract is for a five-year period subject to annual renewals at the Government's option.

We currently have Medicaid contracts with the Puerto Rico Health Insurance Administration through June 30, 2005. Our other Medicaid contracts are in Florida and Illinois, and are annual contracts. As of September 30, 2004, Puerto Rico accounted for approximately 82% of our total Medicaid membership.

The loss of any of the contracts above or significant changes in these programs as a result of legislative action, including reductions in premium payments to us, or increases in member benefits without corresponding increases in premium payments to us, may have a material adverse effect on our financial position, results of operations, and cash flows.

Legal Proceedings

Managed Care Industry Purported Class Action Litigation

We have been involved in several purported class action lawsuits that are part of a wave of generally similar actions that target the health care payer industry and particularly target managed care companies. These include a lawsuit against us and originally nine of our competitors that purports to be brought on behalf of physicians who have treated our members. As a result of action by the Judicial Panel on Multidistrict Litigation ("JPML"), the case was consolidated in the United States District Court for the Southern District of Florida, and has been styled *In re Managed Care Litigation*.

The plaintiffs assert that we and other defendants improperly paid providers' claims and "downcoded" their claims by paying lesser amounts than they submitted. The complaint alleges, among other things, multiple violations under the Racketeer Influenced and Corrupt Organizations Act, or RICO, as well as various breaches of contract and violations of regulations governing the timeliness of claim payments. The complaint was subsequently amended to add as plaintiffs several medical societies, including the Texas Medical Association, the Medical Association of Georgia, the California Medical Association, the Florida Medical Association, and the Louisiana State Medical Society, each of which purports to bring its action against specified defendants.

On September 26, 2002, the Court certified a global class consisting of all medical doctors who provided services to any person insured by any defendant from August 4, 1990, to September 26, 2002. The class included two subclasses. A national subclass consisted of medical doctors who provided services to any person insured by a defendant when the doctor had a claim against such defendant and was not required to arbitrate that claim. A California subclass consisted of medical doctors who provided services to any person insured in California by any defendant when the doctor was not bound to arbitrate the claim.

On September 1, 2004, the Court of Appeals for the Eleventh Circuit ("Eleventh Circuit") agreed with the District Court's ruling as to the class for the RICO claims, although it suggested that the class should be split so that claims involving capitation and fee-for-service payments would be handled separately. However, it reversed the lower court as to state law claims, including breach of contract, unjust enrichment and violations of prompt pay laws. It found that the state claims were too individualized to be dealt with in a class action. The California subclass was not specifically challenged and therefore was permitted to remain. On October 15, 2004, the defendants filed a Petition for a Writ of Certiorari to the United States Supreme Court, asking for review of the Eleventh Circuit's decision.

On September 15, 2004, the Court issued an order rescheduling the trial for March 21, 2005.

Meanwhile, on September 17, 2004, the plaintiffs filed an amended motion for class certification, seeking a global fee-for-service class and five subclasses for the time period from January 1, 1996, to the date of certification. The global class would consist of any medical doctor who provided service on a fee-for-service basis to any person insured by Cigna Corporation or any other defendant for claims of RICO conspiracy and aiding and abetting. The motion seeks subclasses for the conspiracy counts for capitation damages and capitation injunctive relief consisting of all medical doctors who provided services on a capitated basis. The motion also requests a subclass for a direct RICO claim consisting of medical doctors who provided services on a fee-for-service basis to any person insured by

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Humana pursuant to a contract without an arbitration clause or without a contract. The motion also seeks two California subclasses, one involving physicians who provided services on a fee-for-service basis and the other for capitated physicians.

On September 20, 2004, all proceedings were halted. The defendants had earlier filed a request with the Eleventh Circuit for the stay of proceedings pending an appeal to that court from an order denying enforcement of certain arbitration agreements. On September 20, 2004, the Eleventh Circuit issued the stay. On November 5, 2004, the Eleventh Circuit rejected the defendants' appeal on the arbitration issues.

At the defendants' request, the Court had previously filed a motion with the Judicial Panel on Multidistrict Litigation, ("JPML"), asking the JPML to determine whether the suits that were consolidated in Miami should be returned for trial to the courts in which they were initially filed. The JPML initially refused to consider the request because of the pendency of the Eleventh Circuit decision on class certification. After the Eleventh Circuit ruled, the defendants again asked the JPML for a ruling. On October 27, 2004, the JPML refused to rule again, citing the status of the case.

Two of the defendants, Aetna Inc. and Cigna Corporation, have entered into settlement agreements which have been approved by the Court.

We intend to continue to defend this action vigorously.

Government Audits and Other Litigation and Proceedings

Insurance Industry Brokerage Practices Matters

We have received requests for information from the Departments of Insurance in the states of Ohio and North Carolina with respect to an industry wide investigation into certain insurance brokerage practices, including broker compensation arrangements, and bid quoting practices. Additionally, the National Association of Insurance Commissioners has announced that it is in the process of developing recommendations in this area of the industry, which we will immediately review.

In connection with this industry wide review, we may receive requests for information or subpoenas from other regulators or attorneys general. We intend to cooperate fully with any inquiries.

Other

In July 2000, the Office of the Florida Attorney General initiated an investigation, apparently relating to some of the same matters that are involved in the managed care industry purported class action litigation described above. On September 21, 2001, the Texas Attorney General initiated a similar investigation. No actions have been filed against us by either state. These investigations are ongoing, and we have cooperated with the regulators in both states.

On May 31, 2000, we entered into a five-year Corporate Integrity Agreement, or CIA, with the Office of Inspector General, or OIG, of the Department of Health and Human Services. Under the CIA, we are obligated to, among other things, provide training, conduct periodic audits and make periodic reports to the OIG.

In addition, our business practices are subject to review by various state insurance and health care regulatory authorities and federal regulatory authorities. There has been increased scrutiny by these regulators of the managed health care companies' business practices, including allegations of anticompetitive and unfair business activities, claims payment practices, commission payment practices, and utilization management practices. We have been and continue to be subject to such reviews. Some of these have resulted in fines and could require changes in some of our practices and could also result in additional fines or other sanctions.

We also are involved in other lawsuits that arise in the ordinary course of our business operations, including claims of medical malpractice, bad faith, nonacceptance or termination of providers, improper rate setting, failure to disclose network discounts and various other provider arrangements, as well as challenges to subrogation practices. We also are subject to claims relating to performance of contractual obligations to providers, members, and others, including failure to properly pay claims and challenges to the use of certain software products in processing claims. Pending state and federal legislative activity may increase our exposure for any of these types of claims.

In addition, some courts have issued rulings which make it easier to hold plans liable for medical negligence on the part of network providers on the theory that providers are agents of the plans and that the plans are therefore vicariously liable for the injuries to members by providers.

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Personal injury claims and claims for extracontractual damages arising from medical benefit denials are covered by insurance from our wholly owned captive insurance subsidiary and excess carriers, except to the extent that claimants seek punitive damages, which may not be covered by insurance in certain states in which insurance coverage for punitive damages is not permitted. In addition, insurance coverage for all or certain forms of liability has become increasingly costly and may become unavailable or prohibitively expensive in the future.

The likelihood or outcome of current or future suits, like the purported class action lawsuit described above, or governmental investigations, cannot be accurately predicted with certainty. In addition, the potential for increased liability for medical negligence arising from claims adjudication, along with the increased litigation that has accompanied the negative publicity and public perception of our industry, adds to this uncertainty. Therefore, such legal actions and government audits and investigations could have a material adverse effect on our financial position, results of operations, and cash flows.

(11) Segment Information

We manage our business with two segments: Commercial and Government. The Commercial segment consists of members enrolled in products marketed to employer groups and individuals, and includes three lines of business: fully insured medical, administrative services only, or ASO, and specialty. The Government segment consists of members enrolled in government-sponsored programs, and includes three lines of business: Medicare Advantage, Medicaid, and TRICARE. We identified our segments in accordance with the aggregation provisions of Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information* which is consistent with information used by our Chief Executive Officer in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of customer groups and pricing, benefits and underwriting requirements.

The results of each segment are measured by income before income taxes. We allocate all selling, general and administrative expenses, investment and other income, interest expense, and goodwill, but no other assets or liabilities, to our segments. Members served by our two segments generally utilize the same medical provider networks, enabling us to obtain more favorable contract terms with providers. Our segments also share overhead costs and assets. As a result, the profitability of each segment is interdependent.

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Our segment results for the three and nine months ended September 30, 2004 and 2003 are as follows:

	Commercial Segment			
	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(in thousands)			
Revenues:				
Premiums:				
Fully insured				
PPO	\$ 945,906	\$ 856,793	\$2,831,450	\$2,481,317
HMO	717,457	710,491	2,149,792	2,174,539
Total fully insured	1,663,363	1,567,284	4,981,242	4,655,856
Specialty	87,822	81,199	259,932	238,737
Total premiums	1,751,185	1,648,483	5,241,174	4,894,593
Administrative services fees	41,324	31,035	123,788	90,981
Investment and other income	27,226	24,700	88,801	83,451
Total revenues	1,819,735	1,704,218	5,453,763	5,069,025
Operating expenses:				
Medical	1,464,234	1,379,781	4,399,424	4,046,845
Selling, general and administrative	291,705	277,981	874,040	838,061
Depreciation and amortization	19,802	16,442	52,267	66,941
Total operating expenses	1,775,741	1,674,204	5,325,731	4,951,847
Income from operations	43,994	30,014	128,032	117,178
Interest expense	5,288	4,062	13,328	10,230
Income before income taxes	\$ 38,706	\$ 25,952	\$ 114,704	\$ 106,948
	Government Segment			
	Three months ended, September 30,		Nine months ended, September 30,	
	2004	2003	2004	2003
	(in thousands)			
Revenues:				
Premiums:				
MedicareAdvantage	\$ 814,612	\$ 626,840	\$2,295,534	\$1,893,114
TRICARE	386,439	620,477	1,651,844	1,627,212
Medicaid	131,318	120,498	377,895	357,733
Total premiums	1,332,369	1,367,815	4,325,273	3,878,059
Administrative services fees	18,513	35,949	95,632	108,807
Investment and other income	5,656	3,783	20,032	17,548
Total revenues	1,356,538	1,407,547	4,440,937	4,004,414
Operating expenses:				
Medical	1,086,677	1,148,342	3,624,743	3,297,689
Selling, general and administrative	168,466	180,400	542,655	533,135
Depreciation and amortization	11,436	10,670	32,448	33,291
Total operating expenses	1,266,579	1,339,412	4,199,846	3,864,115

Income from operations	89,959	68,135	241,091	140,299
Interest expense	1,192	675	3,196	2,243
Income before income taxes	<u>\$ 88,767</u>	<u>\$ 67,460</u>	<u>\$ 237,895</u>	<u>\$ 138,056</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The condensed consolidated financial statements of Humana Inc. in this document present the Company's financial position, results of operations and cash flows, and should be read in conjunction with the following discussion and analysis. References to "we," "us," "our," "Company," and "Humana" mean Humana Inc. and its subsidiaries. This discussion includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in filings with the Securities and Exchange Commission, in our press releases, investor presentations, and in oral statements made by or with the approval of one of our executive officers, the words or phrases like "expects," "anticipates," "intends," "likely will result," "estimates," "projects" or variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including, among other things, information set forth in the "Cautionary Statements" section of this document. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur. There may also be other risks that we are unable to predict at this time. Any of these risks and uncertainties may cause actual results to differ materially from the results discussed in the forward-looking statements.

Overview

Headquartered in Louisville, Kentucky, Humana Inc. is one of the nation's largest publicly traded health benefits companies, based on our 2003 revenues of \$12.2 billion. We offer a diversified portfolio of health insurance products and related services through traditional and consumer-choice plans to employer groups, government-sponsored programs, and individuals. As of September 30, 2004, we had approximately 6.0 million members in our medical insurance programs, as well as approximately 1.7 million members in our specialty products programs. On November 1, 2004, we added approximately 1 million TRICARE members to our South Region contract, completing the membership transition associated with the implementation of this contract, which began on August 1, 2004.

We manage our business with two segments: Commercial and Government. The Commercial segment consists of members enrolled in products marketed to employer groups and individuals, and includes three lines of business: fully insured medical, administrative services only, or ASO, and specialty. The Government segment consists of members enrolled in government-sponsored programs, and includes three lines of business: Medicare Advantage, TRICARE, and Medicaid. We identified our segments in accordance with the aggregation provisions of Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information* which is consistent with information used by our Chief Executive Officer in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of customer groups and pricing, benefits and underwriting requirements.

The results of each segment are measured by income before income taxes. We allocate all selling, general and administrative expenses, investment and other income, interest expense, and goodwill, but no other assets or liabilities, to our segments. Members served by our two segments generally utilize the same medical provider networks, enabling us to obtain more favorable contract terms with providers. Our segments also share overhead costs and assets. As a result, the profitability of each segment is interdependent.

Our strategy to increase Commercial segment profitability focuses on providing solutions for employers to the rising cost of health care through the use of a variety of innovative and consumer-choice product designs. These products are supported by electronic informational capabilities, including education, tools, and technologies provided primarily through the Internet. To that end, we have developed an innovative suite of products styled as "Smart" products. We believe that these Smart products offer the best solution for many employers to the problem of quickly rising health care costs for their employees. Membership in our Smart products exceeded 240,000 members at September 30, 2004, up 121% from a year ago and 3% since the end of last quarter. We believe that growth in these products, which are offered on a fully-insured or ASO basis and may be competitively priced to produce higher margins, is a key component, among other items, for improvement in the Commercial segment. Additionally, we have amplified the diversification of our commercial membership base, not only through our Smart products, but also by expanding our ASO membership and by launching our Humana One Individual product to take advantage of the increasing migration of small group business to Individual products. While we expect our Smart products to become a driver of growth in the years ahead, we are enhancing the products that comprise the bulk of our commercial portfolio today by applying our consumer innovation across our existing products.

Other important elements which impact our Commercial segment profitability are the competitive pricing environment and market conditions. With respect to pricing, there is a complex balancing act between sustaining or

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increasing underwriting margins versus achieving enrollment growth. We have experienced a decline in our membership in the 3 to 300 life group size as a result of pricing actions by some competitors desiring to gain market share in certain markets. With respect to market conditions, there is the impact of economies of scale on administrative overhead. As a result of the decline in preference for tightly managed HMO products, medical costs have become increasingly comparable among the larger competitors. Consequently, product design and consumer involvement have become the more important drivers of medical services consumption. Administrative expense efficiency is becoming a primary driver of commercial margin sustainability. In line with that philosophy, we continue to examine our administrative expense structure, realize administrative expense savings through technology tools, and look at acquisition opportunities that align with our geographic presence and Commercial strategy.

In our Government segment, we have transitioned our TRICARE business after being awarded the South Region contract in 2003, one of three newly-created regions under the government's revised TRICARE program. On July 1, 2004, our Regions 2 and 5 contracts servicing approximately 1.1 million TRICARE members became part of a new North Region, which was awarded to another contractor. On August 1, 2004, our current Regions 3 and 4 contracts became part of our new South Region contract. On November 1, 2004, the Region 6 contract, previously administered by another contractor, with approximately 1 million members, became part of the South Region. The members added with the Region 6 contract essentially offset the members lost with the Regions 2 and 5 contracts. Additionally, in our Medicare business, we believe the new Medicare legislation demonstrates the federal government's financial commitment to the private payor program and the commitment to providing health benefits and options to seniors. The third quarter of 2004 was the fifth consecutive quarter in which our Medicare membership increased. We are also planning and spending for growth in the new Medicare PPO and Private Fee-For-Service offerings.

Highlights since December 31, 2003, our last year end, include:

- On April 1, 2004, we completed the acquisition of Ochsner Health Plan, or Ochsner, enhancing our presence in the Southern United States, an area growing in population and commercial activity. In addition to creating a new Humana market in New Orleans, Louisiana, the Ochsner acquisition is expected to facilitate sales opportunities in our existing Houston, Texas market and, we believe, will make us more attractive to national accounts. See Note 3 to the condensed consolidated financial statements.
- Diluted earnings per share of \$1.43 for the nine month period ended September 30, 2004, or the 2004 period, an increase of 41.6% from \$1.01 per share reported for the nine month period ended September 30, 2003, or the 2003 period, with our Government segment driving the growth.
- The Government segment pretax earnings during the 2004 period of \$237.9 million increased \$99.8 million, or 72.3% from \$138.1 million during the 2003 period. The Commercial segment pretax earnings of \$114.7 million in the 2004 period were 7.3% higher compared to pretax earnings of \$106.9 million in the 2003 period.
- Consolidated revenues for the 2004 period of \$9.9 billion increased 9.1% from \$9.1 billion for the 2003 period resulting from the Ochsner acquisition and an increase in per member premiums.
- The 2004 period consolidated medical expense ratio of 83.9% increased from 83.7% in the 2003 period while the consolidated SG&A expense ratio of 14.5% in the 2004 period declined from 15.3% in the same period a year ago.
- Cash flows from operations of \$328.3 million in the 2004 period increased from \$122.9 million in the prior year period primarily due to cash generated by working capital changes and higher earnings. Due to the timing of Medicare Advantage premium receipts more fully discussed in the Liquidity section, both the 2004 and 2003 periods include only eight monthly premium receipts instead of a normal nine.
- During the 2004 period, we acquired approximately 3.6 million common shares in the open market for an aggregate price of \$63.6 million, or an average cost of \$17.49 per share.

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Comparison of Results of Operations

The following discussion primarily deals with our results of operations for the three months ended September 30, 2004, or the 2004 quarter, the three months ended September 30, 2003, or the 2003 quarter, the nine months ended September 30, 2004, or the 2004 period, and the nine months ended September 30, 2003, or the 2003 period.

The following table presents certain financial data for our two segments:

	For the three months ended September 30,		Change	
	2004	2003	Dollars	Percentage
(in thousands, except ratios)				
Premium revenues:				
Fully insured	\$ 1,663,363	\$ 1,567,284	\$ 96,079	6.1%
Specialty	87,822	81,199	6,623	8.2%
Total Commercial	1,751,185	1,648,483	102,702	6.2%
MedicareAdvantage	814,612	626,840	187,772	30.0%
TRICARE	386,439	620,477	(234,038)	(37.7)%
Medicaid	131,318	120,498	10,820	9.0%
Total Government	1,332,369	1,367,815	(35,446)	(2.6)%
Total	\$ 3,083,554	\$ 3,016,298	\$ 67,256	2.2%
Administrative services fees:				
Commercial	\$ 41,324	\$ 31,035	\$ 10,289	33.2%
Government	18,513	35,949	(17,436)	(48.5)%
Total	\$ 59,837	\$ 66,984	\$ (7,147)	(10.7)%
Income before income taxes:				
Commercial	\$ 38,706	\$ 25,952	\$ 12,754	49.1%
Government	88,767	67,460	21,307	31.6%
Total	\$ 127,473	\$ 93,412	\$ 34,061	36.5%
Medical expense ratios:				
Commercial	83.6%	83.7%		(0.1)
Government	81.6%	84.0%		(2.4)
Total	82.7%	83.8%		(1.1)
SG&A expense ratios:				
Commercial	16.3%	16.6%		(0.3)
Government	12.5%	12.9%		(0.4)
Total	14.6%	14.9%		(0.3)

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	For the nine months ended September 30,		Change	
	2004	2003	Dollars	Percentage
(in thousands, except ratios)				
Premium revenues:				
Fully insured	\$ 4,981,242	\$ 4,655,856	\$ 325,386	7.0%
Specialty	259,932	238,737	21,195	8.9%
Total Commercial	5,241,174	4,894,593	346,581	7.1%
MedicareAdvantage	2,295,534	1,893,114	402,420	21.3%
TRICARE	1,651,844	1,627,212	24,632	1.5%
Medicaid	377,895	357,733	20,162	5.6%
Total Government	4,325,273	3,878,059	447,214	11.5%
Total	\$ 9,566,447	\$ 8,772,652	\$ 793,795	9.0%
Administrative services fees:				
Commercial	\$ 123,788	\$ 90,981	\$ 32,807	36.1%
Government	95,632	108,807	(13,175)	(12.1)%
Total	\$ 219,420	\$ 199,788	\$ 19,632	9.8%
Income before income taxes:				
Commercial	\$ 114,704	\$ 106,948	\$ 7,756	7.3%
Government	237,895	138,056	99,839	72.3%
Total	\$ 352,599	\$ 245,004	\$ 107,595	43.9%
Medical expense ratios:				
Commercial	83.9%	82.7%		1.2
Government	83.8%	85.0%		(1.2)
Total	83.9%	83.7%		0.2
SG&A expense ratios:				
Commercial	16.3%	16.8%		(0.5)
Government	12.3%	13.4%		(1.1)
Total	14.5%	15.3%		(0.8)

Medical membership was as follows at September 30, 2004 and 2003:

	2004	2003	Change	
			Members	Percentage
Commercial segment medical members:				
Fully insured	2,296,400	2,324,600	(28,200)	(1.2)%
ASO	1,018,800	711,800	307,000	43.1%
Total Commercial	3,315,200	3,036,400	278,800	9.2%
Government segment medical members:				
MedicareAdvantage	371,300	324,600	46,700	14.4%
TRICARE	1,138,600	1,746,300	(607,700)	(34.8)%
TRICARE ASO	674,700	1,057,000	(382,300)	(36.2)%
Medicaid	475,800	460,800	15,000	3.3%
Total Government	2,660,400	3,588,700	(928,300)	(25.9)%
Total medical membership	5,975,600	6,625,100	(649,500)	(9.8)%

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Summary

Net income was \$84.3 million, or \$0.52 per diluted share, in the 2004 quarter compared to \$62.1 million, or \$0.38 per diluted share, in the 2003 quarter. Net income was \$232.9 million, or \$1.43 per diluted share, in the 2004 period compared to \$162.6 million, or \$1.01 per diluted share, in the 2003 period. The increase in net income primarily was due to improved profits in the Government segment. The 2003 period results included expenses for asset impairments as more fully described in Note 4 to the condensed consolidated financial statements.

Premium Revenues and Medical Membership

Premium revenues increased 2.2% to \$3.08 billion for the 2004 quarter, compared to \$3.02 billion for the 2003 quarter. For the 2004 period, premium revenues were \$9.57 billion, an increase of 9.0% compared to \$8.77 billion for the 2003 period. Higher premium revenues resulted primarily from the Ochsner acquisition and an increase in Medicare Advantage and fully insured commercial premium rates. Items impacting premium rates include changes in premium and government reimbursement rates, as well as changes in the geographic mix of membership, the mix of product offerings, and the mix of benefit plans selected by our membership.

Commercial segment premium revenues increased 6.2% to \$1.75 billion for the 2004 quarter, compared to \$1.65 billion for the 2003 quarter. For the 2004 period, commercial segment premium revenues were \$5.24 billion, an increase of 7.1% compared to \$4.89 billion for the 2003 period. This increase resulted from the Ochsner acquisition and increases in per member premiums in the 6% to 8% range on our fully insured commercial business. Our fully insured commercial medical membership decreased 1.2%, or 28,200 members, to 2,296,400 at September 30, 2004 despite the addition of 152,600 members from the acquisition of Ochsner. The decrease is primarily due to the lapse of certain under-performing large group accounts totaling approximately 94,000 members in the 2004 quarter and continued attrition due to the ongoing competitive environment within the small to mid-market group accounts, partially offset by membership gains in the Individual product lines. We expect fully insured commercial per member premiums to increase in the 6% to 8% range for the full year 2004, including our Individual at-risk business. The growth in Individual membership as a percentage of the total block lowered the composite per member premium trend by approximately 150 to 200 basis points due to the lower benefits of this product.

Government segment premium revenues decreased 2.6% to \$1.33 billion for the 2004 quarter, compared to \$1.37 billion for the 2003 quarter. For the 2004 period, government segment premium revenues were \$4.33 billion, an increase of 11.5% compared to \$3.88 billion for the 2003 period. This increase primarily was attributable to our Medicare Advantage operations. Medicare Advantage membership was 371,300 at September 30, 2004, compared to 324,600 at September 30, 2003, an increase of 46,700 members, or 14.4%, including 33,100 members added through the acquisition of Ochsner. Per member premiums for our Medicare Advantage business increased in the 12% to 14% range for the 2004 quarter and includes cumulative adjustments as a result of our efforts to ensure premiums are commensurate with the risk profile of our membership base. Including the Ochsner acquisition, we expect Medicare Advantage membership to grow approximately 15% with premium revenues increasing on a per member basis in the 9% to 11% range for the full year 2004. TRICARE premium revenues decreased 37.7% in the 2004 quarter and increased 1.5% in the 2004 period, reflecting the transition to the new South Region contract.

Administrative Services Fees

Our administrative services fees for the 2004 quarter were \$59.8 million, a decrease of \$7.1 million, or 10.7%, from \$67.0 million for the 2003 quarter. This decrease was the result of lower fees related to TRICARE's change in government-contracted services. For the 2004 period, administrative services fees were \$219.4 million, an increase of \$19.6 million, or 9.8%, compared to \$199.8 million for the 2003 period. This increase resulted primarily from higher Commercial ASO membership partially offset by lower fees related to TRICARE's change in government-contracted services.

For the Commercial segment, administrative services fees increased \$10.3 million, or 33.2%, from \$31.0 million for the 2003 quarter to \$41.3 million for the 2004 quarter, and increased \$32.8 million, or 36.1%, from \$91.0 million to \$123.8 million when comparing the 2004 period to the 2003 period. This increase corresponds to the higher level of ASO membership at September 30, 2004, which was 1,018,800 members, compared to 711,800 at September 30, 2003. We expect Commercial segment medical membership, both fully insured and ASO, to grow between 220,000 and 230,000 members by December 31, 2004, with the previously discussed attrition in fully insured business somewhat offsetting the growth in ASO accounts.

Administrative fees for the Government segment decreased \$17.4 million, or 48.5%, when comparing the 2004 quarter to the 2003 quarter, and decreased \$13.2 million, or 12.1%, when comparing the 2004 period to the 2003 period. This expected decline for the quarter and period resulted from the transition to the new South Region contract which carved out certain government programs including the administration of pharmacy and medical benefits to senior members over the age of 65. We are not participating in these separate programs.

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Investment and Other Income

Investment and other income totaled \$32.9 million for the 2004 quarter, an increase of \$4.4 million from \$28.5 million for the 2003 quarter. For the 2004 period, investment and other income totaled \$108.8 million, an increase of \$7.8 million from \$101.0 million for the 2003 period. This increase primarily resulted from an increase in the average invested balance. Investment securities acquired as part of the Ochsner transaction and the investment of cash flows from operations contributed to the increase in the average invested balance. The 2004 period included a \$16.0 million capital gain and the 2003 period included a \$15.2 million capital gain from the sale of privately held venture capital investments.

Medical Expense

Total medical expenses as a percentage of premium revenues, or medical expense ratio (MER), for the 2004 quarter was 82.7%, decreasing 110 basis points from 83.8% for the 2003 quarter. For the 2004 period, our MER was 83.9%, increasing 20 basis points from the 2003 period of 83.7%.

The Commercial segment's MER for the 2004 quarter was 83.6%, decreasing 10 basis points from the 2003 quarter of 83.7%, and an increase of 120 basis points from 82.7% to 83.9% was experienced comparing the 2004 period with the 2003 period. The 10 basis point improvement over the 2003 quarter was primarily due to the combined effect of the lapse of approximately 94,000 members in under-performing accounts partially offset by the continued losses associated with a single large account with approximately 89,000 members. The MER increase for the period is primarily due to the large single account with approximately 89,000 members, a competitive pricing environment, and an additional day of medical expense due to the leap year. Increasing per member premiums commensurate with claims trend becomes more difficult in a competitive pricing environment. Fully insured commercial medical cost trends, which are expected to rise in the range of 6.5% to 8.5% for the full year of 2004, has been impacted by a growing mix of Individual membership. The growth in Individual membership as a percentage of the total block lowers the composite trend by approximately 200 basis points.

The Government segment's MER for the 2004 quarter was 81.6%, decreasing 240 basis points from the 2003 quarter of 84.0%, and a decrease of 120 basis points from 85.0% to 83.8% was experienced comparing the 2004 period with the 2003 period. The decrease was due to Medicare Advantage and TRICARE premium increases that were higher than medical cost increases. As previously discussed, Medicare Advantage results include cumulative premium that better reflects the risk profile of our membership base. TRICARE premiums reflect bid price adjustments settled during the 2004 quarter.

SG&A Expense

Total selling, general and administrative, or SG&A, expenses as a percentage of premium revenues and administrative services fees, or SG&A expense ratio, for the 2004 quarter was 14.6%, decreasing 30 basis points from the 2003 quarter of 14.9%. For the 2004 period, the SG&A expense ratio was 14.5%, decreasing 80 basis points when compared to the 2003 period of 15.3%. This decrease is the result of operational efficiencies gained from completing the consolidation of seven service centers into four and workforce reductions favorably impacting both segments. Included in the 2003 period were costs of \$17.2 million from the impairment of the Jacksonville, Florida service center building more fully described in Note 4 to the condensed consolidated financial statements. These costs increased the 2003 period's SG&A expense ratio 30 basis points. The consolidated SG&A expense ratio is expected to be in the range of 14% to 15% for the full year 2004.

The Commercial segment SG&A expense ratio decreased 30 basis points from 16.6% to 16.3% for the 2004 quarter versus the 2003 quarter. For the 2004 period compared to the 2003 period, the Commercial segment SG&A expense ratio decreased 50 basis points from 16.8% to 16.3% and is expected to be in the range of 16% to 17% for the full year 2004. The Commercial segment SG&A expense ratio for the 2003 period included an approximate 10 basis point impact from the Jacksonville, Florida building writedown.

The Government segment SG&A expense ratio decreased 40 basis points from 12.9% to 12.5% for the 2004 quarter versus the 2003 quarter and decreased 110 basis points from 13.4% to 12.3% for the 2004 period compared to the 2003 period. The Government segment SG&A expense ratio for the 2003 period included an approximate 50 basis point impact from the Jacksonville, Florida building writedown. The Government segment SG&A expense ratio is expected to be in the range of 11% to 12% for the full year 2004.

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Depreciation and amortization for the 2004 quarter totaled \$31.2 million compared to \$27.1 million for the 2003 quarter, an increase of \$4.1 million, or 15.2%. For the 2004 period, depreciation and amortization totaled \$84.7 million compared to \$100.2 million for the 2003 period, a decrease of \$15.5 million, or 15.5%. After finalizing plans at the beginning of the third quarter of 2004 to abandon some enrollment software, we reduced the estimated useful life of the software effective July 1, 2004. The change in the useful life increased depreciation expense during the 2004 quarter by approximately \$4.0 million. The decrease in the 2004 period resulted from accelerated depreciation of software of \$13.5 million included in the 2003 period and a net decrease of amortization of other intangible assets when the government contract acquired with the TRICARE Regions 2 and 5 transaction became fully amortized in the second quarter of 2003. This was partially offset by the increased amortization expense associated with other intangible assets recorded in connection with the April 1, 2004 Ochsner acquisition.

Interest Expense

Interest expense was \$6.5 million for the 2004 quarter, compared to \$4.7 million for the 2003 quarter, an increase of \$1.8 million. For the 2004 period, interest expense was \$16.5 million compared to \$12.5 million for the 2003 period, an increase of \$4.0 million. This increase primarily resulted from higher average outstanding debt, due to the issuance of \$300 million senior notes in August 2003, offset by lower interest rates.

Income Taxes

On an interim basis, the provision for income taxes is provided for at the anticipated effective tax rate for the year. Our effective tax rate was 33.9% for the 2004 quarter and 34.0% for the 2004 period, compared to 33.5% for the 2003 quarter and 33.6% for the 2003 period. This increase primarily reflects a higher proportion of pretax income to tax-exempt investment income.

Membership

The following table presents our medical and specialty membership at September 30, 2004, June 30, 2004, March 31, 2004, and at the end of each quarter in 2003:

	2004			2003			
	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Medical Membership:							
Commercial segment:							
Fully insured	2,296,400	2,407,700	2,298,600	2,352,800	2,324,600	2,350,400	2,348,800
ASO	1,018,800	996,700	997,000	712,400	711,800	670,300	654,600
Total Commercial	3,315,200	3,404,400	3,295,600	3,065,200	3,036,400	3,020,700	3,003,400
Government segment:							
MedicareAdvantage	371,300	367,900	333,200	328,600	324,600	324,200	327,100
TRICARE	1,138,600	1,856,900	1,860,100	1,849,700	1,746,300	1,750,800	1,752,500
TRICARE ASO	674,700	786,000	1,057,900	1,057,200	1,057,000	1,052,500	1,050,800
Medicaid	475,800	466,400	468,200	468,900	460,800	492,700	491,400
Total Government	2,660,400	3,477,200	3,719,400	3,704,400	3,588,700	3,620,200	3,621,800
Total medical members	5,975,600	6,881,600	7,015,000	6,769,600	6,625,100	6,640,900	6,625,200
Specialty Membership:							
Commercial segment	1,714,300	1,691,400	1,703,200	1,668,100	1,639,100	1,642,000	1,650,100

Liquidity

Cash and cash equivalents decreased to \$375.1 million at September 30, 2004 from \$931.4 million at December 31, 2003. The primary reason for the decrease in cash and cash equivalents during the 2004 period was the purchase of investment securities and the timing of the MedicareAdvantage premium receipts.

The timing of MedicareAdvantage premium receipts may significantly impact our cash flows from operations in a particular period as the MedicareAdvantage premium receipt is payable to us on the first day of each month. When the first day of a month falls on a weekend or holiday, we have historically received this payment at the end of the previous month. Since the amount is significant, the timing of its receipt could cause a material fluctuation in our operating cash flows from period to period. The MedicareAdvantage premium receipts for January 2004 of \$211.9 million and January 2003 of \$205.8 million were received in December 2003 and December 2002, respectively, because January 1 is a holiday. This timing accounts for a significant portion of the unearned revenues balance on our condensed consolidated balance sheet at December 31, 2003. This timing also accounts for only eight premium receipts for the nine month period ended September 30, 2004 and 2003.

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Beginning in 2005, the monthly premium payment schedule includes a change in timing from previous practice. As a result of this change, the January 2005 payment originally scheduled to be received on Friday, December 31, 2004, has been changed to Monday, January 3, 2005, or one business day later. Therefore, we will be receiving only 11 monthly Medicare Advantage premium payments during 2004.

The change in cash and cash equivalents for the nine months ended September 30, 2004 and 2003 is summarized as follows:

	Nine months ended September 30	
	2004	2003
	(in thousands)	
Net cash provided by operating activities	\$ 328,324	\$ 122,920
Net cash used in investing activities	(730,553)	(367,984)
Net cash (used in) provided by financing activities	(154,085)	159,544
Decrease in cash and cash equivalents	\$(556,314)	\$ (85,520)

The primary drivers of operating cash flow in our business are premium collections and medical claim payments. Because premiums generally are collected in advance of claims payments by a period up to several months in many instances, our business normally should produce strong cash flows during a period of increasing enrollment. Conversely, cash flows should be impacted negatively during a period of shrinking enrollment. An exception to this general rule is the collection of certain TRICARE receivables, some of which takes place at least six months after the end of a contract year. Other activities that impact our cash flows are the collection of ASO fees and investment income, and the payment of operating expenses, interest expense and taxes.

Operating cash flow in the 2004 period of \$328.3 million increased \$205.4 million from \$122.9 million in the 2003 period primarily due to cash generated by working capital changes and higher earnings. Contributing to the improved working capital during the 2004 period was the collection of TRICARE receivables as the following table details:

	September 30, 2004	December 31, 2003	Change
	(in thousands)		
TRICARE:			
Base receivable	\$ 230,639	\$ 266,656	\$ (36,017)
Bid price adjustments (BPAs)	22,955	92,875	(69,920)
Change orders	3,216	7,073	(3,857)
	256,810	366,604	(109,794)
Less: long-term portion of BPAs	—	(38,794)	38,794
TRICARE subtotal	256,810	327,810	(71,000)
Commercial and other	197,535	178,577	18,958
Allowance for doubtful accounts	(29,475)	(40,400)	10,925
Total net receivables	\$ 424,870	\$ 465,987	\$ (41,117)

TRICARE base receivables are collected monthly in the ordinary course of business. Base receivables are expected to grow in connection with the transition to the reimbursement model under the South Region contract. Certain TRICARE Regions 3 and 4 BPAs were settled during the 2004 quarter. Increases in premium and ASO fee revenues contributed to higher Commercial and other receivables.

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The timing of payments for claims can significantly impact comparisons of our operating cash flows between years. The following table presents the estimated valuation and number of unprocessed claims on hand, performance metrics we regularly review. Claims on hand represent the estimated number of provider requests for reimbursement that have been received but not yet processed.

	Estimated Valuation	Claims on Hand	Number of Days Claims On-hand
	(dollars in thousands)		
December 31, 2000	\$257,400	1,157,900	11.0
December 31, 2001	\$125,400	518,100	5.0
December 31, 2002	\$ 92,300	424,200	4.5
December 31, 2003	\$109,700	443,000	4.9
September 30, 2004	\$122,300	453,300	4.4

Medical and other expenses payable increased during the 2004 quarter due primarily to medical claims inflation. The detail of medical and other expenses payable was as follows at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003	Change
	(in thousands)		
IBNR (1)	\$1,184,446	\$1,034,858	\$149,588
Unprocessed claim inventories (2)	122,300	109,700	12,600
Processed claim inventories (3)	79,895	74,262	5,633
Payable to pharmacy benefit administrator and other (4)	49,494	53,336	(3,842)
Total medical and other expenses payable	\$1,436,135	\$1,272,156	\$163,979

- (1) IBNR represents an estimate of medical expenses payable for claims incurred but not reported (IBNR) at the balance sheet date. The level of IBNR is primarily impacted by membership levels, medical claim trends and the receipt cycle time, which represents the length of time between when a claim is initially incurred and when the claim form is received (i.e. a shorter time span results in a lower IBNR).
- (2) Unprocessed claim inventories represent the estimated valuation of claims received but not yet fully processed. Further detail regarding unprocessed claim inventories is provided above.
- (3) Processed claim inventories represent the estimated valuation of processed claims that are in the post claim adjudication process, which consists of administrative functions such as audit and check batching and handling.
- (4) The balance due to our pharmacy benefit administrator fluctuates due to bi-weekly payments and the month-end cutoff.

Cash Flow from Investing Activities

We paid \$116.0 million to acquire Ochsner, net of cash and cash equivalents acquired. The purchase price is subject to adjustment in accordance with the terms and conditions of the purchase agreement. As early as the fourth quarter of 2004, the purchase price will be adjusted to reflect changes in net equity from the amount estimated as of the date the purchase agreement was signed in December 2003 until the transaction closed on April 1, 2004, giving effect for items such as higher cash balances from earnings and changes in Ochsner's ultimate claims liability as of April 1, 2004 using claims paid data during a six month run-out period.

During the 2004 period, we reinvested a portion of our cash and cash equivalents in investment securities, primarily short-duration fixed income securities, totaling \$570.7 million. Our ongoing capital expenditures primarily relate to our technology initiatives and administrative facilities necessary for activities such as claims processing, billing and collections, medical utilization review, and customer service. Total capital expenditures were \$72.9 million for the 2004 period and \$65.0 million for the 2003 period. Excluding acquisitions, we expect our total capital expenditures in 2004 to range from \$100 million to \$110 million, most of which will be used for our technology initiatives and improvement of administrative facilities. Proceeds from the sale of the Jacksonville service center building increased investing cash flows \$14.8 million.

Cash Flow from Financing Activities

The cash used in financing activities in the 2004 period resulted primarily from common stock repurchases more fully discussed below and change in the book overdraft, partially offset by proceeds from stock option exercises.

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In July 2003, the Board of Directors authorized the use of up to \$100 million for the repurchase of our common shares exclusive of shares repurchased in connection with employee stock plans. The shares may be purchased from time to time at prevailing prices in the open market or in privately negotiated transactions. For the nine months ended September 30, 2004, 3,636,000 common shares were acquired in open market transactions at an aggregate cost of \$63.6 million, or an average of \$17.49 per share. As of November 1, 2004, \$36.4 million of the July 2003 authorization remains available for share repurchases until January 2005, the expiration date of the authorization. See also the chart in Part II, Item 2 on page 38.

Long-term Debt

Long-term debt outstanding was as follows at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
	(in thousands)	
6.30% senior, unsecured notes due 2018, net of unamortized discount of \$795 at September 30, 2004 and \$838 at December 31, 2003	\$ 299,205	\$ 299,162
7.25% senior, unsecured notes due 2006, net of unamortized discount of \$268 at September 30, 2004 and \$376 at December 31, 2003	299,733	299,624
Fair value of interest rate swap agreements	8,695	12,754
Deferred gain from interest rate swap exchange	18,832	26,175
Total senior notes	626,465	637,715
Other long-term borrowings	4,447	4,923
Total long-term debt	\$ 630,912	\$ 642,638

Senior Notes

In order to term-out our short-term debt and take advantage of historically low interest rates, we issued \$300 million 6.30% senior notes due August 1, 2018 on August 5, 2003. Our net proceeds, reduced for the cost of the offering, were approximately \$295.8 million. The net proceeds were used for general corporate purposes, including the funding of our short term cash needs.

In order to hedge the risk of changes in the fair value of our \$300 million 6.30% senior notes and our \$300 million 7.25% senior notes attributable to fluctuations in interest rates, we entered into interest rate swap agreements. Interest rate swap agreements, which are considered derivatives, are contracts that exchange interest payments on a specified principal amount, or notional amount, for a specified period. The interest rate swap agreements have the same critical terms as our 6.30% senior notes and our 7.25% senior notes. Changes in the fair value of the 6.30% or 7.25% senior notes and the swap agreements due to changing interest rates are assumed to offset each other completely, resulting in no impact to earnings from hedge ineffectiveness. Our swap agreements are recognized in our condensed consolidated balance sheet at fair value with an equal and offsetting adjustment to the carrying value of our senior notes. The fair value of our interest rate swap agreements are estimated based on quoted market prices of comparable agreements, and reflect the amounts we would receive (or pay) to terminate the agreements at the reporting date.

In June 2003, we recorded a deferred gain and received proceeds of \$31.6 million in exchange for new swap agreements discussed above related to our 7.25% senior notes. The corresponding deferred swap gain of \$31.6 million is being amortized to reduce interest expense over the remaining term of the 7.25% senior notes. The carrying value of our 7.25% senior notes has been increased \$18.8 million by the remaining deferred swap gain balance at September 30, 2004.

Our interest rate swap agreements exchange the fixed interest rate under our 6.30% and 7.25% senior notes for a variable interest rate. At September 30, 2004, the effective interest rate was 2.90% for the 6.30% senior notes and 3.86% for the 7.25% senior notes, including the amortization of the deferred swap gain. The \$300 million swap agreements for the 6.30% senior notes mature on August 1, 2018, and the \$300 million swap agreements for the 7.25% senior notes mature on August 1, 2006, and each has the same critical terms as the related senior notes.

At September 30, 2004, the \$8.7 million fair value of our swap agreements is included in other long-term assets. Likewise, the carrying value of our senior notes has been increased \$8.7 million to reflect its fair value. The counterparties to our swap agreements are major financial institutions with which we also have other financial relationships.

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Credit Agreement

On September 29, 2004, we replaced our existing credit agreements with a new 5-year \$600 million unsecured revolving credit agreement which will expire in September 2009. We previously maintained two unsecured revolving credit agreements consisting of a \$265 million, 4-year revolving credit agreement and a \$265 million, 364-day revolving credit agreement. There was no balance outstanding under the new agreement at September 30, 2004.

Under the new agreement, at our option, we can borrow on either a competitive advance basis or a revolving credit basis. The revolving credit portion of the agreement bears interest at either a fixed rate or floating rate based on LIBOR plus a spread. The spread, which varies depending on our credit ratings, ranges from 50 to 112.5 basis points. We also pay an annual facility fee regardless of utilization. This facility fee, initially 15 basis points, may fluctuate between 12.5 and 37.5 basis points, depending upon our credit ratings. In addition, a utilization fee of 12.5 basis points is payable for any day in which borrowings under the facility exceeds 50% of the total \$600 million commitment. The competitive advance portion of any borrowings will bear interest at market rates prevailing at the time of borrowing on either a fixed rate or a floating rate basis, at our option.

The 5-year \$600 million credit agreement contains customary restrictive and financial covenants as well as customary events of default, including financial covenants regarding the maintenance of net worth, minimum interest coverage, and maximum leverage ratios. At September 30, 2004, we were in compliance with all applicable financial covenant requirements. The terms of each of these credit agreements also include standard provisions related to conditions of borrowing, including a customary material adverse effect clause which could limit our ability to borrow. We have not experienced a material adverse effect, and we know of no circumstances or events which would be reasonably likely to result in a material adverse effect. We do not believe the material adverse effect clause poses a material funding risk to Humana in the future.

We have other relationships, including financial advisory and banking, with some of the parties to the new agreement.

Commercial Paper Program

We maintain and may issue short-term debt securities under a commercial paper program when market conditions allow. The program is backed by our credit agreement described above. Aggregate borrowings under both the new credit agreement and commercial paper program generally will not exceed \$600 million.

In connection with the new credit arrangement, the conduit commercial paper program allowing indirect access to the commercial paper market through a third party was cancelled.

At September 30, 2004, we had no commercial paper borrowings outstanding.

Other Borrowings

Other borrowings of \$4.4 million at September 30, 2004 represent financing for the renovation of a building, bear interest at 2% per annum, are collateralized by the building, and are payable in various installments through 2014.

Shelf Registration

On April 1, 2003, our universal shelf registration became effective with the Securities and Exchange Commission. This allows us to register debt or equity securities, from time to time, with the amount, price and terms to be determined at the time of the sale. After the issuance of our \$300 million, 6.30% senior notes in August 2003, we have up to \$300 million remaining from a total of \$600 million under the universal shelf registration. The universal shelf registration allows us to use the net proceeds from any future sales of our securities for our operations and for other general corporate purposes, including repayment or refinancing of borrowings, working capital, capital expenditures, investments, acquisitions, or the repurchase of our outstanding securities.

Regulatory Requirements

Certain of our subsidiaries operate in states that regulate the payment of dividends, loans, or other cash transfers to Humana Inc., our parent company, require minimum levels of equity, as well as limit investments to approved securities. The amount of dividends that may be paid to Humana Inc. by these subsidiaries, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory income and statutory capital and surplus. In most states, prior notification is provided before paying a dividend even if approval is not required.

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As of September 30, 2004, we maintained aggregate statutory capital and surplus of \$1,126.6 million in our state regulated health insurance subsidiaries. Each of these subsidiaries was in compliance with applicable statutory requirements which aggregated \$704.1 million. Although the minimum required levels of equity are largely based on premium volume, product mix, and the quality of assets held, minimum requirements can vary significantly at the state level. Certain states rely on risk-based capital requirements, or RBC, to define the required levels of equity. RBC is a model developed by the National Association of Insurance Commissioners to monitor an entity's solvency. This calculation indicates recommended minimum levels of required capital and surplus and signals regulatory measures should actual surplus fall below these recommended levels. If RBC were adopted by all states at September 30, 2004, each of our subsidiaries would be in compliance and we would have \$363.5 million of aggregate capital and surplus above any of the levels that require corrective action under RBC.

Future Liquidity Needs

Because of the items discussed in this Liquidity section, we believe that funds from future operating cash flows, funds available under our credit agreement, and our demonstrated ability to successfully access the capital markets are sufficient to meet short and intermediate-term liquidity needs. We also believe these sources of funds are adequate to allow us to fund selected expansion opportunities, as well as to fund capital requirements.

Cautionary Statements

This document includes both historical and forward-looking statements. The forward-looking statements are made within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with these safe harbor provisions. We have based these forward-looking statements on our current expectations and projections about future events, trends and uncertainties. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including, among other things, the information discussed below. In making these statements, we are not undertaking to address or update each factor in future filings or communications regarding our business or results. Our business is highly complicated, regulated and competitive with many different factors affecting results.

If the premiums we charge are insufficient to cover the cost of health care services delivered to our members, or if our estimates of medical claim reserves based upon our estimates of future medical claims are inadequate, our profitability could decline.

We use a significant portion of our revenues to pay the costs of health care services delivered to our members. These costs include claims payments, capitation payments, allocations of some centralized expenses and various other costs incurred to provide health insurance coverage to our members. These costs also include estimates of future payments to hospitals and others for medical care provided to our members. Generally, premiums in the health care business are fixed for one-year periods. Accordingly, costs we incur in excess of our medical cost projections generally are not recovered in the contract year through higher premiums. We estimate the costs of our future medical claims and other expenses using actuarial methods and assumptions based upon claim payment patterns, medical inflation, historical developments, including claim inventory levels and claim receipt patterns, and other relevant factors. We also record medical claims reserves for future payments. We continually review estimates of future payments relating to medical claims costs for services incurred in the current and prior periods and make necessary adjustments to our reserves. However, increases in the use or cost of services by our members, competition, government regulations and many other factors may and often do cause actual health care costs to exceed what was estimated and reflected in premiums.

These factors may include:

- increased use of medical facilities and services, including prescription drugs;
- increased cost of such services;
- the Company's membership mix;
- membership in markets lacking adequate provider networks;
- changes in the demographic characteristics of an account or market;
- termination of capitation arrangements resulting in the transfer of membership to fee-for-service arrangements;

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- changes or reductions of our utilization management functions such as preauthorization of services, concurrent review or requirements for physician referrals;
- catastrophes, including acts of terrorism, epidemics, or severe weather;
- the introduction of new or costly treatments, including new technologies;
- medical cost inflation; and
- new government mandated benefits or other regulatory changes.

Failure to adequately price our products or estimate sufficient medical claim reserves may result in a material adverse effect on our financial position, results of operations and cash flows.

If we do not design and price our products properly and competitively, our membership and profitability could decline.

We are in a highly competitive industry. Many of our competitors are more established in the health care industry and have a larger market share and greater financial resources than we do in some markets. In addition, other companies may enter our markets in the future, including emerging competitors in the MedicareAdvantage program, in e-commerce insurance or benefit programs and in consumer-directed health plans, such as Health Savings Accounts (“HSA”). Contracts for the sale of commercial products are generally bid upon or renewed annually. While health plans compete on the basis of many factors, including service and the quality and depth of provider networks, we expect that price will continue to be a significant basis of competition. In addition to the challenge of controlling health care costs, we face intense competitive pressure to contain premium prices. Factors such as business consolidations, strategic alliances, legislative reform and marketing practices create pressure to contain premium price increases, despite being faced with increasing medical costs. The commercial pricing environment, particularly in the smaller-sized groups, is extremely competitive, and several of our competitors, including public and not-for-profit companies, are pricing aggressively to gain market share.

Premium increases, introduction of new product designs, and our relationship with our providers in various markets, among other issues, could affect our membership levels. Other actions that could affect membership levels include the possible exit of or entrance to MedicareAdvantage or Commercial markets. If we do not compete effectively in our markets, if we set rates too high or too low in highly competitive markets to keep or increase our market share, if membership does not increase as we expect, or if it declines, or if we lose accounts with favorable medical cost experience while retaining or increasing membership in accounts with unfavorable medical cost experience, our business and results of operations could be materially adversely affected.

If we fail to effectively implement our operational and strategic initiatives, our business could be materially adversely affected.

Our future performance depends in large part upon our management team’s ability to execute our strategy to position the Company for the future. This strategy includes the growth of our Commercial segment business, introduction of new products and benefit designs, including our Smart products, the successful implementation of our e-business initiatives, the adoption of new technologies and the integration of acquired businesses and contracts. We believe that the adoption of new technologies will contribute toward a reduction in administrative costs. One of the ways we reduce administrative costs is to more closely align our workforce with our membership. This alignment is achieved through reductions in workforce or by employing additional people in certain strategic operating areas such as sales and underwriting. There can be no assurance that we will be able to successfully implement our operational and strategic initiatives that are intended to position the Company for future growth. Failure to implement this strategy or to contain our administrative expenses in line with our membership may result in a material adverse effect on our financial position, results of operations and cash flows.

If we fail to properly maintain the integrity of our data, or to strategically implement new information systems, or to protect our proprietary rights to our systems, our business could be materially adversely affected.

Our business depends significantly on effective information systems and the integrity and timeliness of the data we use to run our business. Our business strategy involves providing members and providers with easy to use products that leverage our information to meet their needs. Our ability to adequately price our products and services, provide effective and efficient service to our customers, and to timely and accurately report our financial results depends significantly on the integrity of the data in our information systems. As a result of our past and on-going acquisition activities, we have acquired additional systems. We have been taking steps to reduce the number of systems we operate, have upgraded and expanded our information systems capabilities, and are gradually migrating

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existing business to fewer systems. If the information we rely upon to run our businesses was found to be inaccurate or unreliable or if we fail to maintain effectively our information systems and data integrity, we could have operational disruptions, have problems in determining medical cost estimates and establishing appropriate pricing, have customer and physician and other health care provider disputes, have regulatory problems, have increases in operating expenses, lose existing customers, have difficulty in attracting new customers, or suffer other adverse consequences. Our information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences.

We depend on independent third parties for significant portions of our systems-related support, equipment, facilities, and certain data, including data center operations, data network, voice communication services and pharmacy data processing. This dependence makes our operations vulnerable to such third parties' failure to perform adequately under the contract, due to internal or external factors. A change in service providers could result in a decline in service quality and effectiveness or less favorable contract terms which could adversely affect our operating results.

We rely on our agreements with customers, confidentiality agreements with employees, and our trade secrets and copyrights to protect our proprietary rights. These legal protections and precautions may not prevent misappropriation of our proprietary information. In addition, substantial litigation regarding intellectual property rights exists in the software industry. We expect software products to be increasingly subject to third-party infringement claims as the number of products and competitors in this area grows.

There can be no assurance that our process of improving existing systems, developing new systems to support our operations, integrating new systems, protecting our proprietary information, and improving service levels will not be delayed or that additional systems issues will not arise in the future. Failure to adequately protect and maintain the integrity of our information systems and data may result in a material adverse effect on our financial positions, results of operations and cash flows.

If we fail to manage prescription drug costs successfully, our financial results could suffer.

In general, prescription drug costs have been rising over the past few years. These increases are due to the introduction of new drugs costing significantly more than existing drugs, direct to consumer advertising by the pharmaceutical industry that creates consumer demand for particular brand-name drugs, and members seeking medications to address lifestyle changes. In order to control prescription drug costs, we have implemented multi-tiered copayment benefit designs for prescription drugs, including our four-tiered copayment benefit design, Rx4 and an Rx allowance program. We cannot assure that these efforts will be successful in controlling costs. Failure to control these costs could have a material adverse effect on our financial position, results of operations and cash flows.

We are involved in various legal actions, which, if resolved unfavorably to us, could result in substantial monetary damages.

We are a party to a variety of legal actions that affect our business, including employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, and tort claims.

We, together with some of our competitors in the health benefits business are defendants in a number of purported class action lawsuits. These include an action originally filed against us and nine of our competitors that purports to be brought on behalf of health care providers. Two companies have now settled this action. This suit alleges breaches of federal statutes, including ERISA and RICO. Depending upon the outcome of these cases, these lawsuits may cause or force changes in the practices of the managed care industry.

In addition, because of the nature of the health care business, we are subject to a variety of legal actions relating to our business operations, including the design, management and offering of products and services. These include and could include in the future:

- claims relating to the methodologies for calculating premiums;
- claims relating to the denial of health care benefits;
- challenges to the use of some software products used in administering claims;
- medical malpractice actions based on our medical necessity decisions or brought against us on the theory that we are liable for our providers' alleged malpractice;

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- allegations of anti-competitive and unfair business activities;
- provider disputes over compensation and termination of provider contracts;
- disputes related to self-funded business, including actions alleging claim administration errors;
- claims related to the failure to disclose some business practices; and
- claims relating to customer audits and contract performance.

In some cases, substantial non-economic or punitive damages as well as treble damages under the federal False Claims Act, RICO and other statutes may be sought. While we currently have insurance coverage for some of these potential liabilities, other potential liabilities may not be covered by insurance, insurers may dispute coverage or the amount of insurance may not be enough to cover the damages awarded. Additionally, the cost of business insurance coverage has increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to matters incidental to our business. We believe that we are adequately insured for claims in excess of our self-insurance. However, some types of damages, like punitive damages, may not be covered by insurance, particularly in those jurisdictions in which coverage of punitive damages is prohibited. Insurance coverage for all or some forms of liability may become unavailable or prohibitively expensive in the future.

A description of material legal actions in which we are currently involved is included under “Legal Proceedings” in Note 10 to the condensed consolidated financial statements. We cannot predict the outcome of these suits with certainty, and we are incurring expenses in the defense of these matters. Therefore, these legal actions could have a material adverse effect on our financial position, results of operations and cash flows.

As a government contractor, we are exposed to additional risks that could adversely affect our business or our willingness to participate in government health care programs.

A significant portion of our revenues relates to federal and state government health care coverage programs, including the TRICARE, Medicare Advantage, and Medicaid programs. These programs involve various risks, including:

- At September 30, 2004, under one of our contracts with the Centers for Medicare and Medicaid Services, or CMS, we provided health insurance coverage to approximately 230,500 members in Florida. This contract accounted for approximately 15% of our total premiums and ASO fees for the nine months ended September 30, 2004. The loss of this and other CMS contracts or significant changes in the Medicare Advantage program as a result of legislative or administrative action, including reductions in payments to us or increases in benefits to members without corresponding increases in payments, may have a material adverse effect on our financial condition, results of operations and cash flows;
- On November 1, 2004, approximately 1 million members transitioned to our TRICARE South Region contract. This was the final step in the transition of the implementation of the South Region contract. In total, the TRICARE South Region contract now covers approximately 2.8 million beneficiaries. The South Region contract is a five-year contract, subject to annual renewals at the Government’s option. This contract also is generally subject to frequent change from events and circumstances such as the escalated conflict in the Middle East. These changes may include a reduction or increase in the number of persons enrolled or eligible to enroll, in revenue we receive, or in our administrative or health care costs. In the event government reimbursement were to decline from projected amounts, our failure to reduce the health care costs associated with these programs could have a material adverse effect on our business. The loss of our current TRICARE contract would have a material adverse effect on our financial position, results of operations and cash flows;
- changes to these government programs in the future may also affect our ability or willingness to participate in these programs;
- higher comparative medical costs;
- government regulatory and reporting requirements;
- higher marketing and advertising costs per member as a result of marketing to individuals as opposed to groups; and
- the possibility of temporary or permanent suspension from participating in government health care programs, including Medicare and Medicaid, if we are convicted of fraud or other criminal conduct in the performance of a health care program or if there is an adverse decision against us under the federal False Claims Act.

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Our industry is currently subject to substantial government regulation, which, along with possible increased governmental regulation or legislative reform, increases our costs of doing business and could adversely affect our profitability.

The health care industry in general, and health insurance, particularly health maintenance organizations, or HMOs, and preferred provider organizations, or PPOs, are subject to substantial federal and state government regulation, including:

- regulation relating to minimum net worth;
- licensing requirements;
- approval of policy language and benefits;
- mandated benefits and processes;
- provider compensation arrangements;
- member disclosure;
- approval of entry, withdrawal or re-entry into a state or market;
- premium rates; and
- periodic examinations by state and federal agencies.

State regulations require our licensed, operating subsidiaries to maintain minimum net worth requirements and restrict some investment activities. Additionally, those regulations restrict the ability of our subsidiaries to make dividend payments, loans, loan repayments or other payments to us.

In recent years, significant federal and state legislation affecting our business has been enacted. State and federal governmental authorities are continually considering changes to laws and regulations applicable to us and are currently considering regulations relating to:

- mandatory benefits and products;
- rules tightening time periods in which claims must be paid;
- medical malpractice reform;
- defining medical necessity;
- health insurance access;
- provider compensation and contract language;
- disclosure of provider fee schedules and other data about payments to providers, sometimes called transparency;
- product flexibility and use of innovative technology;
- disclosure of provider quality information;
- health plan liability to members who fail to receive appropriate care;
- disclosure and composition of physician networks;
- formation of regional/national association health plans for small employers;
- adding further restrictions and administrative requirements on the use, retention, transmission, processing, production and disclosure of personally identifiable health information;
- physicians' ability to collectively negotiate contract terms with carriers, including fees; and
- mental health parity.

All of these proposals could apply to us.

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There can be no assurance that we will be able to continue to obtain or maintain required governmental approvals or licenses or that legislative or regulatory changes will not have a material adverse effect on our business. Delays in obtaining or failure to obtain or maintain required approvals could adversely affect our revenue or the number of our members, increase costs or adversely affect our ability to bring new products to market as forecasted.

On October 22, 2004, the President signed into law the American Jobs Creation Act of 2004 (the “Jobs Act”). We are currently evaluating the Jobs Act and are awaiting the interpretive advice; however, we do not believe that any provisions of the Jobs Act will have a material impact on the Company.

The National Association of Insurance Commissioners, or NAIC, has adopted risk-based capital requirements, also known as RBC, which is subject to state-by-state adoption and to the extent implemented, sets minimum capitalization requirements for insurance and HMO companies. The NAIC recommendations for life insurance companies were adopted in all states and the prescribed calculation for HMOs has been adopted in most states in which we operate. The HMO rules may increase the minimum capital required for some of our subsidiaries.

The NAIC is also evaluating the adoption of Sarbanes-Oxley type audit committee standards and requirements for additional attestations by management and external auditors. We expect the proposal to be amended during the review process. However, as currently drafted, the proposal would cause us to expend substantial resources.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, includes administrative provisions directed at simplifying electronic data interchange through standardizing transactions, establishing uniform health care provider, payer, and employer identifiers and seeking protections for confidentiality and security of patient data. Under the HIPAA standard transactions and code sets rules, we have made significant systems enhancements and invested in new technological solutions. The compliance and enforcement date for standard transactions and code sets rules was October 16, 2003. We have continued to be in compliance with this regulation. However, as many providers indicated that they could not yet comply, CMS stated that covered entities making a good faith effort to comply with HIPAA transactions and code-set standards would be allowed to implement contingency plans to maintain their operations and cash flows. On October 15, 2003, we announced implementation of a contingency plan to accept non-compliant electronic transactions from our providers. We have continued to accept and process transactions sent in pre-HIPAA electronic formats from providers who are showing a good-faith effort and currently expect to do so until all providers and clearinghouses are capable of transmitting fully compliant standards transactions as defined in the HIPAA implementation guidelines or until CMS begins enforcement of the HIPAA Electronic Data Interchange regulations. Management believes that the implementation of our contingency plans has minimized any disruptions in our business operations during this transition. However, if entities with which we do business do not ultimately comply with the HIPAA transactions and code set standards, it could result in disruptions of certain of our business operations.

Additionally, under the new HIPAA privacy rules, which became effective on April 14, 2003, we have complied with a variety of requirements concerning the use and disclosure of individuals’ protected health information, established rigorous internal procedures to protect health information and entered into business associate contracts with those companies to whom protected health information is disclosed. Regulations issued in February 2003 set standards for the security of electronic health information requiring compliance by April 21, 2005. Violations of these rules will subject us to significant penalties. Compliance with HIPAA regulations requires significant systems enhancements, training and administrative effort. The final rules do not provide for complete federal preemption of state laws, but rather preempt all inconsistent state laws unless the state law is more stringent. HIPAA could also expose us to additional liability for violations by our business associates.

Another area receiving increased focus is the time in which various laws require the payment of health care claims. Many states already have legislation in place covering payment of claims within a specific number of days. However, due to provider groups advocating for laws or regulations establishing even stricter standards, procedures and penalties, we expect additional regulatory scrutiny and supplemental legislation with respect to claims payment practices. The provider-sponsored bills are characterized by stiff penalties for late payment, including high interest rates payable to providers and costly fines levied by state insurance departments and attorneys general. This legislation and possible future regulation and oversight could expose our Company to additional liability and penalties.

We are also subject to various governmental audits and investigations. These can include audits and investigations by state attorneys general, CMS, the Office of the Inspector General of Health and Human Services, the Office of Personnel Management, the Department of Justice, the Department of Labor, the Defense Contract Audit Agency, and state Departments of Insurance and Departments of Health. Several Attorneys General are currently investigating the practices of insurance brokers, including those of certain of the companies in the health

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care industry. All of these activities could result in the loss of licensure or the right to participate in various programs, or the imposition of fines, penalties and other sanctions. In addition, disclosure of any adverse investigation or audit results or sanctions could negatively affect our industry or our reputation in various markets and make it more difficult for us to sell our products and services.

If we fail to develop and maintain satisfactory relationships with the providers of care to our members, our business could be adversely affected.

We contract with physicians, hospitals and other providers to deliver health care to our members. Our products encourage or require our customers to use these contracted providers. These providers may share medical cost risk with us or have financial incentives to deliver quality medical services in a cost-effective manner.

In any particular market, providers could refuse to contract with us, demand to contract with us, demand higher payments, or take other actions that could result in higher health care costs for us, less desirable products for customers and members or difficulty meeting regulatory or accreditation requirements. In some markets, some providers, particularly hospitals, physician/hospital organizations or multi-specialty physician groups, may have significant market positions and negotiating power. In addition, physician or practice management companies, which aggregate physician practices for administrative efficiency and marketing leverage, may, in some cases, compete directly with us. If these providers refuse to contract with us, use their market position to negotiate favorable contracts or place us at a competitive disadvantage, our ability to market products or to be profitable in those areas could be adversely affected.

In some situations, we have contracts with individual or groups of primary care physicians for an actuarially determined, fixed, per-member-per-month fee under which physicians are paid an amount to provide all required medical services to our members (i.e. capitation). The inability of providers to properly manage costs under these capitation arrangements can result in the financial instability of these providers and the termination of their relationship with us. In addition, payment or other disputes between a primary care provider and specialists with whom the primary care provider contracts can result in a disruption in the provision of services to our members or a reduction in the services available to our members. The financial instability or failure of a primary care provider to pay other providers for services rendered could lead those other providers to demand payment from us, even though we have made our regular fixed payments to the primary provider. There can be no assurance that providers with whom we contract will properly manage the costs of services, maintain financial solvency or avoid disputes with other providers. Any of these events could have an adverse effect on the provision of services to our members and our operations.

Our ability to obtain funds from our subsidiaries is restricted.

Because we operate as a holding company, we are dependent upon dividends and administrative expense reimbursements from our subsidiaries to fund the obligations of Humana Inc., the parent company. These subsidiaries generally are regulated by states' Departments of Insurance. In most states, we are required to seek prior approval by these state regulatory authorities before we transfer money or pay dividends from these subsidiaries that exceed specified amounts, or, in some states, any amount. In addition, we normally notify the state Departments of Insurance prior to making payments that do not require approval. We are also required by law to maintain specific prescribed minimum amounts of capital in these subsidiaries.

Debt ratings are an important factor in our competitive position.

Claims paying ability, financial strength, and debt ratings by recognized rating organizations have become an increasingly important factor in establishing the competitive position of insurance companies. Ratings information is broadly disseminated and generally used throughout the industry. We believe our claims paying ability and financial strength ratings are an important factor in marketing our products to certain of our customers, and our debt ratings impact both the cost and availability of future borrowings. Each of the rating agencies reviews its ratings periodically and there can be no assurance that current ratings will be maintained in the future. Our ratings reflect each rating agency's opinion of our financial strength, operating performance, and ability to meet our debt obligations or obligations to policyholders, but are not evaluations directed toward the protection of investors in our common stock and should not be relied upon as such. Downgrades in our ratings, should they occur, may adversely affect our business, financial condition and results of operations.

Increased litigation and negative publicity could increase our cost of doing business.

The health benefits industry continues to receive significant negative publicity reflecting the public perception of the industry. This publicity and perception have been accompanied by increased litigation, including some large jury awards, legislative activity, regulation and governmental review of industry practices. These factors may adversely affect our ability to market our products or services, may require us to change our products or services, may increase the regulatory burdens under which we operate and may require us to pay large judgments or fines. Any combination of these factors could further increase our cost of doing business and adversely affect our financial position, results of operations and cash flows.

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Item 3. Quantitative and Qualitative Disclosure about Market Risk

No material changes have occurred in our exposures to market risk since the date of our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer, or CEO and Chief Financial Officer, or CFO, of the effectiveness of the design and operation of our disclosure controls and procedures including our internal controls over financial reporting for the quarter ended September 30, 2004.

The Company's management, including the CEO and CFO, does not expect that our disclosure controls and procedures including our internal controls over financial reporting will prevent all error and all fraud. However, they have been designed to give reasonable assurance about the effectiveness of the design and operation of our disclosure controls and procedures including our internal controls over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Control system limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on our evaluation, our CEO and CFO concluded that our disclosure controls and procedures, including our internal controls over financial reporting, are effective in timely alerting them to material information required to be included in our periodic SEC reports. There have been no significant changes in our internal controls over financial reporting or in other factors that are reasonably likely to affect those controls over financial reporting during the Company's quarter ended September 30, 2004.

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Part II. Other Information

Item 1: [Legal Proceedings](#)

For a description of the litigation and legal proceedings pending against us, see Legal Proceedings in Note 10 to the condensed financial statements beginning on page 14 of this Form 10-Q.

Item 2: [Unregistered Sales of Equity Securities and Use of Proceeds](#)

The following table provides information about purchases by us during the nine months ended September 30, 2004 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)(3)</u>	<u>Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
January 2004	150,000	\$ 20.7130	150,000	\$ 96,893,049
February 2004	129,000	\$ 21.2539	129,000	\$ 94,151,299
March 2004	407,000	\$ 19.9013	407,000	\$ 86,051,470
Total 1Q04	686,000	\$ 20.3331	686,000	\$ 86,051,470
April 2004	400,000	\$ 18.1595	400,000	\$ 78,787,668
May 2004	1,050,000	\$ 16.2339	1,050,000	\$ 61,742,092
June 2004	717,500	\$ 16.3821	717,500	\$ 49,987,941
Total 2Q04	2,167,500	\$ 16.6383	2,167,500	\$ 49,987,941
July 2004	382,500	\$ 16.7066	382,500	\$ 43,597,650
August 2004	400,000	\$ 17.9669	400,000	\$ 36,410,905
September 2004	—	\$ —	—	\$ 36,410,905
Total 3Q04	782,500	\$ 17.3508	782,500	\$ 36,410,905
Total	3,636,000	\$ 17.4888	3,636,000	\$ 36,410,905

- (1) We repurchased an aggregate of 3,636,000 shares of our common stock pursuant to the repurchase program that we publicly announced in July 2003 (the "Program").
- (2) Our board of directors approved the repurchase by us of shares of our common stock having a value of up to \$100 million in the aggregate pursuant to the Program. The expiration date of this program is January 2005.
- (3) Excludes 34,970 shares repurchased in connection with employee equity-based compensation plans.

Item 3: [Defaults Upon Senior Securities](#)

None.

Item 4: [Submission of Matters to a Vote of Security Holders](#)

None.

Item 5: [Other Information](#)

None.

Item 6: [Exhibits](#)

Exhibit Index:

- 10(a) Executive Long-Term Disability Program
- 10(b) Five-Year \$600 Million Credit Agreement among Humana Inc., and J.P. Morgan Chase Bank, as Agent and as CAF Loan Agent, Bank of America, N.A., Citibank, N.A., U.S. Bank National Association, and Wachovia Bank, National Association as Syndication Agents and J.P. Morgan Securities Inc., as Sole Lead Arranger and Sole Lead Bookrunner.

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Part II. Other Information, continued

- 12 Computation of ratio of earnings to fixed charges.
- 31.1 CEO certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
- 31.2 CFO certification pursuant to Section 302 of Sarbanes–Oxley Act of 2002.
- 32 CEO and CFO certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Supplemental Income Protection Plan

Guaranteed Standard Issue (GSI) Supplemental Income Protection Plan Summary

Eligibility	Associates earning at least \$106,000 annually and who are eligible for a MIP bonus of 25% or greater.
Insurable Income	Bonus
Plan Design	66 2/3% of Bonus up to the amount of the GSI
LTD Plan	UnumProvident; 66 2/3% Base Salary to \$20,000; 100% Employer Paid.
GSI Benefit Maximum	\$5,000
Elimination Period	180 days
Benefit Period	To Age 65
Contract Type	Income II Select / Non-Cancelable Contract (without Update)
Contributory Status	Employee Paid
Participation Requirement	1 Life
Discount	30% Large Case
Optional Additional Benefits:	Catastrophic Disability Benefit – 25% to \$8,000

Contract Benefits

Income II Select Non-Cancelable Contract

Benefit Period

To Age 65

Elimination Period

Benefits begin after a waiting period of 180 days.

Income Replacement for Total Disability

- **1st Two Years of Disability:** a monthly income benefit will be paid if you are disabled in your own occupation, not working in another occupation and under a physician's care

-
- **Remainder of Your Benefit Period:** a monthly income benefit will be paid if you cannot work in any “gainful” occupation for which you are suited based on education, training or experience and which could be expected to generate at least 60% of your prior earnings; and under a physician’s care. If the insured individual can return to this “gainful” occupation but does not do so, a monthly income benefit of 50% is payable for up to the remainder of the benefit period.
 - **Monthly Catastrophic Benefit:** added to your income benefit, replacing up to 100% of your prior income and paying in the event of certain very serious disabilities that are likely to increase your living expenses (your insurance professional can provide information on physical conditions that apply)
 - **2 Year Mental Disorder Benefit**

Return-To-Work Benefits

- **Rehabilitation Services:** available to you while you are totally or partially disabled and designed to help you return to work. Include coordination of physical therapy, vocation testing, retraining, career counseling, placement services, worksite modifications, etc.
- **Residual Benefits:** monthly benefits for less than total disability, based on your proportionate loss of income, for the duration of the Benefit Period you chose for your policy.
- **Work Incentive Benefit:** when you return to work, you will receive a short-term incentive for up to six months equal to the difference between your prior income and your current income, for up to 100T income replacement (subject to the maximum benefit amount)
- **Recovery Benefit:** paid for up to 6 months after you return to work full time in your own occupation but continue to have a loss of earnings while you rebuild your business or customer base

Lifetime Benefits

- **Lifetime Continuation:** you can exchange your income protection for long-term care insurance coverage between the ages of 60 and 70. Your base policy LTC benefit will be \$3,000 per month (or \$100 per day, if state-required). Your LTC benefit period will be six years (Not available in CT, FL & TX).
- **Purchase Option Guarantee:** you can exchange your income protection for long-term care insurance coverage between the ages of 60 and 75. Your base policy LTC benefit will be \$3,000 per month (or \$100 per day, if state-required). Your LTC benefit period will be six years. (Only available in TX).

Optional Benefits

Plan Specifications

Terms & Conditions

Who is eligible

This offer is extended to Associates earning at least \$106,000 annually and who are eligible for a MIP bonus of 25% or greater.

For the period of time commencing 180 Days prior to and including the date of application, applicants must have been able to work full-time (30 hours or more per week) performing all the duties of their occupation without limitations due to injury or sickness, and not have been homebound or hospitalized due to significant injury or sickness.

Basis of Issue	<p>A standard offer means no modifications can be made to the contract's premium rate, elimination period, benefit period or monthly benefit amounts to adjust for a pre-existing medical condition.</p> <p>All applicants will be asked questions for current Activities of Daily Living (ADL) losses. If any ADL loss or applicable pre-existing condition exists on the date of the application, no Lifetime Continuation to Long Term Care (Purchase Option Guarantee in Texas) will be included in the policy, and no Catastrophic Benefit will be issued.</p> <p>The benefit will program around any coverage already in-force or applied for. Total coverage to be in-force would not exceed this plan design or our issue and participation limits. The benefit may be offset by any in-force individual coverage that was issued on a guaranteed standard basis.</p> <p>Minimum policy size is \$300.</p> <p>Any additional amounts purchased beyond this offer amount will be considered to be outside the plan design and subject to our normal medical and financial underwriting guidelines.</p>
Financial Requirements	<p>We will accept a company-provided census (electronic preferred) listing employee name, date of birth, job title and compensation as income documentation. Insurable income will be based on current year's target bonus.</p> <p>Net Worth and Unearned Income considerations will be disregarded.</p>
Application Type	<p>A-32395 (short form)</p>

FIVE-YEAR
CREDIT AGREEMENT

among

HUMANA INC.,

THE SEVERAL BANKS AND OTHER FINANCIAL INSTITUTIONS
FROM TIME TO TIME PARTIES HERETO,

and

JPMORGAN CHASE BANK,
as Agent and as CAF Loan Agent,

BANK OF AMERICA, N.A.,

CITIBANK, N.A.,

U.S. BANK NATIONAL ASSOCIATION

and

WACHOVIA BANK, National Association,

as Syndication Agents

and

J.P. MORGAN SECURITIES INC.,
as Sole Lead Arranger and Sole Lead Bookrunner
Dated as of September 29, 2004

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CREDIT AGREEMENT, dated as of September 29, 2004, among HUMANA INC., a Delaware corporation (the "Company"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), and JPMORGAN CHASE BANK, a New York banking corporation, as administrative agent for the Banks hereunder (in such capacity, the "Agent") and as CAF Loan agent (in such capacity, the "CAF Loan Agent").

WITNESSETH:

WHEREAS, the Company has requested the Banks to provide a revolving credit facility in the aggregate principal amount of \$600,000,000; and

WHEREAS, the Banks are willing to provide such credit facility upon and subject to the terms and conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms have the following meanings:

"Admitted Asset": with respect to any HMO Subsidiary or Insurance Subsidiary, any asset of such HMO subsidiary or Insurance Subsidiary which qualifies as an "admitted asset" (or any like item) under the applicable Insurance Regulations and HMO Regulations.

"Affiliate": as to any Person, any other Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Aggregate Outstanding Extensions of Credit": as to any Bank at any time, an amount equal to the sum of (a) the aggregate principal amount of all Loans made by such Bank then outstanding and (b) such Bank's Commitment Percentage of the L/C Obligations then outstanding.

"Agreement": this Credit Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Alternate Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Agent as its prime rate in effect at its principal office in New York City (each change in the Prime Rate to be effective on the date such change is publicly announced); "Base CD Rate" shall mean the sum of (a) the product of (i) the Three-Month Secondary CD Rate

and (ii) a fraction, the numerator of which is one and the denominator of which is one minus the C/D Reserve Percentage and (b) the C/D Assessment Rate; “Three-Month Secondary CD Rate” shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board of Governors of the Federal Reserve System (the “Board”) through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 A.M., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it; “C/D Reserve Percentage” shall mean, for any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board (or any successor), for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding one billion Dollars in respect of new non-personal three-month certificates of deposit in the secondary market in Dollars in New York City and in an amount of \$100,000 or more; “C/D Assessment Rate” shall mean, for any day, the net annual assessment rate (rounded upward to the nearest 1/100th of 1%) determined by JPMorgan Chase Bank to be payable on such day to the Federal Deposit Insurance Corporation or any successor (“FDIC”) for FDIC’s insuring time deposits made in Dollars at offices of JPMorgan Chase Bank in the United States; and “Federal Funds Effective Rate” shall mean, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three federal funds brokers of recognized standing selected by it. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective on the effective day of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

“Alternate Base Rate Loans”: Revolving Credit Loans hereunder at such time as they are made and/or being maintained at a rate of interest based upon the Alternate Base Rate.

“Applicable LIBOR Auction Advance Rate”: in respect of any CAF Loan requested pursuant to a LIBOR Auction Advance Request, the London interbank offered rate for deposits in Dollars for the period commencing on the date of such CAF Loan and ending on the maturity date thereof which appears on Telerate Page 3750 as of 11:00 A.M., London time, two Working Days prior to the beginning of such period.

“Applicable Margin”: for each Type of Revolving Credit Loan, the rate per annum applicable to such type determined in accordance with the Pricing Grid.

“Application”: any application, in such form as the Issuing Bank may specify from time to time, requesting the Issuing Bank to open a Letter of Credit.

“Approved Fund”: as defined in subsection 10.6(d).

“Available Commitments”: at a particular time, an amount equal to the difference between (a) the amount of the Commitments at such time and (b) the Aggregate Outstanding Extensions of Credit at such time.

“Bank Obligations”: as defined in subsection 8.1.

“Banks”: the several banks and other financial institutions from time to time parties to this Agreement.

“Benefitted Bank”: as defined in subsection 10.7.

“Borrowing Date”: any Business Day specified in a notice pursuant to subsection 2.1(b) or a CAF Loan Request pursuant to subsection 2.2(b) as a date on which the Company requests the Banks to make Revolving Credit Loans or CAF Loans, as the case may be, hereunder.

“Business Day”: a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close, provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, such day is also a day for trading by and between banks in Dollar deposits in the interbank eurodollar market.

“CAF Loan”: each CAF Loan made pursuant to subsection 2.2; the aggregate amount advanced by a CAF Loan Bank pursuant to subsection 2.2 on each CAF Loan Date shall constitute one or more CAF Loans, as specified by such CAF Loan Bank pursuant to subsection 2.2(b)(vi).

“CAF Loan Assignee”: as defined in subsection 10.6(c).

“CAF Loan Assignment”: any assignment by a CAF Loan Bank to a CAF Loan Assignee of a CAF Loan and related Individual CAF Loan Note; any such CAF Loan Assignment to be registered in the Register must set forth, in respect of the CAF Loan Assignee thereunder, the full name of such CAF Loan Assignee, its address for notices, its lending office address (in each case with telephone and facsimile transmission numbers) and payment instructions for all payments to such CAF Loan Assignee, and must contain an agreement by such CAF Loan Assignee to comply with the provisions of subsection 10.6(c), 10.6(h) and 10.12 to the same extent as any Bank.

“CAF Loan Banks”: Banks from time to time designated as CAF Loan Banks by the Company by written notice to the CAF Loan Agent (which notice the CAF Loan Agent shall transmit to each such CAF Loan Bank).

“CAF Loan Confirmation”: each confirmation by the Company of its acceptance of one or more CAF Loan Offers, which CAF Loan Confirmation shall be substantially in the form of Exhibit F and shall be delivered to the CAF Loan Agent in writing or by facsimile transmission.

“CAF Loan Date”: each date on which a CAF Loan is made pursuant to subsection 2.2.

“CAF Loan Note”: a Grid CAF Loan Note or an Individual CAF Loan Note.

“CAF Loan Offer”: each offer by a CAF Loan Bank to make one or more CAF Loans pursuant to a CAF Loan Request, which CAF Loan Offer shall contain the information specified in Exhibit E and shall be delivered to the CAF Loan Agent by telephone, immediately confirmed by facsimile transmission.

“CAF Loan Request”: each request by the Company for CAF Loan Banks to submit bids to make CAF Loans, which shall contain the information in respect of such requested CAF Loans specified in Exhibit D and shall be delivered to the CAF Loan Agent in writing or by facsimile transmission, or by telephone, immediately confirmed by facsimile transmission.

“Capital Stock”: any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

“Change in Control”: of any corporation, shall occur where (a) any Person or “group” (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended), other than the Company, shall acquire more than 30% of the Voting Stock of such corporation or (b) the Continuing Directors shall not constitute a majority of the board of directors of such corporation.

“Clocktower Building”: the real property located at 123 E. Main Street, Louisville, Kentucky 40202.

“Closing Date”: the date on which all of the conditions precedent for the Closing Date set forth in Section 5 shall have been fulfilled.

“Code”: the Internal Revenue Code of 1986, as amended from time to time.

“Commercial Letter of Credit”: as defined in subsection 3.1(a).

“Commitment”: as to any Bank, its obligation to make Revolving Credit Loans to the Company pursuant to subsection 2.1(a) and/or issue or participate in Letters of Credit issued on behalf of the Company in an aggregate principal amount and/or face amount not to exceed at any one time outstanding the amount set forth opposite such Bank’s name in Schedule I, as such amount may be reduced or increased from time to time as provided herein.

“Commitment Percentage”: as to any Bank, the percentage of the aggregate Commitments constituted by such Bank’s Commitment.

“Commitment Period”: the period from and including the Closing Date to but not including the Termination Date or such earlier date on which the Commitments shall terminate as provided herein.

“Commitment Transfer Supplement”: a Commitment Transfer Supplement, substantially in the form of Exhibit G.

“Commitment Utilization Percentage” shall mean on any day, the percentage equivalent of a fraction (a) the numerator of which is the aggregate outstanding principal amount of the Loans and L/C Obligations and (b) the denominator of which is the aggregate Commitments for all Banks (or, on any day after termination of the Commitments, the aggregate Commitments in effect immediately preceding such termination).

“Commonly Controlled Entity”: an entity, whether or not incorporated, which is under common control with the Company within the meaning of Section 4001 of ERISA or is part of a group which includes the Company and which is treated as a single employer under Section 414 of the Code.

“Conduit Lender”: any special purpose corporation organized and administered by any Bank for the purpose of making Loans otherwise required to be made by such Bank and designated by such Bank in a written instrument; provided, that the designation by any Bank of a Conduit Lender shall not relieve the designating Bank of any of its obligations to fund a Loan under this Agreement if, for any reason, its Conduit Lender fails to fund any such Loan, and the designating Bank (and not the Conduit Lender) shall have the sole right and responsibility to deliver all consents and waivers required or requested under this Agreement with respect to its Conduit Lender; and provided, further, that no Conduit Lender shall (a) be entitled to receive any greater amount pursuant to subsections 2.13, 2.14, 2.15, 2.16 or 10.5 than the designating Bank would have been entitled to receive in respect of the extensions of credit made by such Conduit Lender (and each Bank which designates a Conduit Lender shall indemnify the Company against any increased taxes, costs, expenses, liabilities or losses associated with any payment thereunder to such Conduit Lender) or (b) be deemed to have any Commitment.

“Consolidated Assets”: the consolidated assets of the Company and its Subsidiaries, determined in accordance with GAAP.

“Consolidated EBIT”: for any period for which the amount thereof is to be determined, Consolidated Net Income for such period plus all amounts deducted in computing such Consolidated Net Income in respect of Consolidated Interest Expense and income taxes, all determined in accordance with GAAP; provided, that for purposes of calculating Consolidated EBIT for any period of four full fiscal quarters, (i) the Consolidated EBIT attributable to any Person or business unit acquired by the Company or its Subsidiaries during such period (such Consolidated EBIT to be calculated in the same manner as Consolidated EBIT for the Company and its Subsidiaries is calculated, mutatis mutandis, provided that amounts arising prior to the time such acquired Person or business unit was acquired attributable to (a) any discontinued operations or products of the acquired Person or business unit or (b) operations or products of the acquired Person or business unit which the Company expects to discontinue as disclosed in the

Company's reports filed with the Securities and Exchange Commission within three months after the date of acquisition of such Person or business unit shall be excluded in such calculation) shall be included on a pro forma basis for such period of four full fiscal quarters (assuming the consummation of each such acquisition and the incurrence, assumption or repayment of any Indebtedness in connection therewith occurred on the first day of such period of four full fiscal quarters) and (ii) the Consolidated EBIT of any Person or business unit disposed of by the Company or its Subsidiaries during such period (such Consolidated EBIT to be calculated in the same manner as Consolidated EBIT for the Company and its Subsidiaries is calculated, mutatis mutandis) shall be deducted on a pro forma basis for such period of four full fiscal quarters (assuming the consummation of each such disposition and the repayment of any Indebtedness in connection therewith occurred on the first day of such period of four full fiscal quarters).

"Consolidated EBITDA": for any fiscal period for which the amount thereof is to be determined, Consolidated EBIT for such fiscal period plus, to the extent deducted from Consolidated Net Income for such fiscal period, depreciation and amortization for such fiscal period.

"Consolidated Interest Expense": for any period for which the amount thereof is to be determined, all amounts deducted in computing Consolidated Net Income for such period in respect of interest expense on Indebtedness determined in accordance with GAAP; provided, that for purposes of calculating Consolidated Interest Expense for any period of four full fiscal quarters, (i) the Consolidated Interest Expense of any Person or business unit acquired by the Company or its Subsidiaries during such period (such Consolidated Interest Expense to be calculated in the same manner as Consolidated Interest Expense for the Company and its Subsidiaries is calculated, mutatis mutandis, provided that amounts arising prior to the time such acquired Person or business unit was acquired attributable to (a) any discontinued operations or products of the acquired Person or business unit or (b) operations or products of the acquired Person or business unit which the Company expects to discontinue as disclosed in the Company's reports filed with the Securities and Exchange Commission within three months after the date of acquisition of such Person or business unit shall be excluded in such calculation) shall be included on a pro forma basis for such period of four full fiscal quarters (assuming the consummation of each such acquisition and the incurrence, assumption or repayment of any Indebtedness in connection therewith occurred on the first day of such period of four full fiscal quarters) and (ii) the Consolidated Interest Expense of any Person or business unit disposed of by the Company or its Subsidiaries during such period (such Consolidated Interest Expense to be calculated in the same manner as Consolidated Interest Expense for the Company and its Subsidiaries is calculated, mutatis mutandis) shall be deducted on a pro forma basis for such period of four full fiscal quarters (assuming the consummation of each such disposition and the repayment of any Indebtedness in connection therewith occurred on the first day of such period of four full fiscal quarters). Consolidated Interest Expense shall in any event include the Synthetic Lease Interest Component of any Synthetic Lease entered into by the Company or any of its Subsidiaries.

"Consolidated Net Income": for any period, the consolidated net income, if any, after taxes, of the Company and its Subsidiaries for such period determined in accordance with GAAP; provided, that, for all purposes other than subsection 7.1(a), Consolidated

Net Income shall not be reduced or increased by the amount of any non-cash extraordinary charges or credits that would otherwise be deducted from or added to revenue in determining such Consolidated Net Income.

“Consolidated Net Tangible Assets”: at any date, the total amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (i) all current liabilities as disclosed on the consolidated balance sheet of the Company (excluding any thereof which are by their terms extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed and excluding any deferred income taxes that are included in current liabilities), and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent consolidated balance sheet of the Company and computed in accordance with GAAP.

“Consolidated Net Worth”: at any date, the stockholders’ equity of the Company and its Subsidiaries at such date, determined in accordance with GAAP.

“Consolidated Total Debt”: the aggregate of all Indebtedness (including the current portion thereof) of the Company and its Subsidiaries on a consolidated basis.

“Continuing Director”: any member of the Board of Directors of the Company who is a member of such Board on the date of this Agreement, and any Person who is a member of such Board and whose nomination as a director was approved by a majority of the Continuing Directors then on such Board.

“Contractual Obligation”: as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

“Control Group Person”: any Person which is a member of the controlled group or is under common control with the Company within the meaning of Section 414(b) or 414(c) of the Code or Section 4001(b)(1) of ERISA.

“Default”: any of the events specified in subsection 8.1, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

“Distribution”: (a) the declaration or payment of any dividend on or in respect of any shares of any class of Capital Stock of the Company other than dividends payable solely in shares of common stock of the Company; (b) the purchase, redemption or other acquisition of any shares of any class of Capital Stock of the Company directly or indirectly through a Subsidiary or otherwise; and (c) any other distribution on or in respect of any shares of any class of Capital Stock of the Company.

“Dollars” and “\$”: dollars in lawful currency of the United States of America.

“Domestic Lending Office”: with respect to each Bank the office of such Bank located within the United States which shall be making or maintaining Alternate Base Rate Loans.

“ERISA”: the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Eurocurrency Reserve Requirements”: for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto), dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of such Board) maintained by a member bank of such System.

“Eurodollar Lending Office”: with respect to each Bank, the office of such Bank which shall be making or maintaining Eurodollar Loans.

“Eurodollar Loans”: Revolving Credit Loans hereunder at such time as they are made and/or are being maintained at a rate of interest based upon the Eurodollar Rate.

“Eurodollar Rate”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum equal to the average (rounded upwards to the nearest whole multiple of one sixteenth of one percent) of the respective rates notified to the Agent by the Reference Banks as the rate at which each of their Eurodollar Lending Offices is offered Dollar deposits two Working Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations of such Eurodollar Lending Office are then being conducted at or about 10:00 A.M., New York City time, for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of the Eurodollar Loan of such Reference Bank to be outstanding during such Interest Period.

“Eurodollar Tranche”: the collective reference to Eurodollar Loans having the same Interest Period (whether or not originally made on the same day).

“Event of Default”: any of the events specified in subsection 8.1, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, event or act has been satisfied.

“Excess Utilization Day” shall mean each day on which the Commitment Utilization Percentage exceeds 50%.

“Existing Credit Agreements”: the collective reference to (i) the Four-Year Credit Agreement, dated as of October 11, 2001, among the Company, the banks and other financial institutions parties thereto, The Chase Manhattan Bank, as administrative agent, and others, as amended or otherwise modified; (ii) the Second Amended and Restated 364-Day Credit Agreement, dated as of October 1, 2003, among the Company, the banks and other financial institutions parties thereto, JPMorgan Chase Bank, as administrative agent, and others, as amended or otherwise modified; and (iii) the Second Amended and Restated RFC Loan Agreement, dated as of October 1, 2003, among the Company, the banks and other financial institutions parties thereto, Relationship Funding

Company, LLC, JPMorgan Chase Bank, as administrative agent, and others, as amended or otherwise modified and the related Liquidity Agreement, dated as of October 11, 2001, among Relationship Funding Company, LLC, the liquidity institutions identified therein and The Chase Manhattan Bank, as administrative agent, as amended or otherwise modified.

“Existing Issuing Bank”: JPMorgan Chase Bank, as issuer of the Existing Letters of Credit.

“Existing Letters of Credit”: the letters of credit described in Annex A.

“Fee Payment Date”: (a) the third Business Day following the last day of each March, June, September and December and (b) the last day of the Commitment Period.

“Financing Lease”: any lease of property, real or personal, if the then present value of the minimum rental commitment thereunder should, in accordance with GAAP, be capitalized on a balance sheet of the lessee.

“Fixed Rate Auction Advance Request”: any CAF Loan Request requesting the CAF Loan Banks to offer to make CAF Loans at a fixed rate (as opposed to a rate composed of the Applicable LIBOR Auction Advance Rate plus or minus a margin).

“GAAP”: (a) with respect to determining compliance by the Company with the provisions of subsections 7.1, 7.2 and 7.5, generally accepted accounting principles in the United States of America consistent with those utilized in preparing the audited financial statements referred to in subsection 4.6 and (b) with respect to the financial statements referred to in subsection 4.6 or the furnishing of financial statements pursuant to subsection 6.4 and otherwise, generally accepted accounting principles in the United States of America from time to time in effect.

“Governmental Authority”: any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Green Bay Facility”: offices of the Company located at 1100 Employers Boulevard, De Pere, Wisconsin.

“Grid CAF Loan Note”: as defined in subsection 2.3(e).

“Guarantee Obligation”: of any Person, means, any arrangement whereby credit is extended to one party on the basis of any promise of such Person, whether that promise is expressed in terms of an obligation to pay the Indebtedness of another, or to purchase an obligation owed by that other, to purchase assets or to provide funds in the form of lease or other types of payments under circumstances that would enable that other to discharge one or more of its obligations, whether or not such arrangement is listed in the balance sheet of the obligor or referred to in a footnote thereto, but shall not include endorsements of items for collection in the ordinary course of business.

“Headquarters”: the principal executive offices of the Company located at 500 West Main Street, Louisville, Kentucky 40202.

“HMO”: a health maintenance organization doing business as such (or required to qualify or to be licensed as such) under HMO Regulations.

“HMO Regulation”: all laws, regulations, directives and administrative orders applicable under federal or state law specific to health maintenance organizations and any regulations, orders and directives promulgated or issued pursuant thereto.

“HMO Regulator”: any Person charged with the administration, oversight or enforcement of an HMO Regulation.

“HMO Subsidiary”: any Subsidiary of the Company that is now or hereafter an HMO.

“Indebtedness”: of a Person, at a particular date, the sum (without duplication) at such date of (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services or which is evidenced by a note, bond, debenture or similar instrument, (b) all obligations of such Person under Financing Leases, (c) all obligations of such Person in respect of letters of credit, acceptances, or similar obligations issued or created for the account of such Person in excess of \$1,000,000, (d) all liabilities secured by any Lien on any property owned by the Company or any Subsidiary even though such Person has not assumed or otherwise become liable for the payment thereof, (e) the amount of any Synthetic Lease Obligations of such Person, (f) all Guarantee Obligations relating to any of the foregoing in excess of \$1,000,000, and (g) for purposes of subsection 8.1(e) only, all obligations of such Person in respect of Interest Rate Protection Agreements.

“Individual CAF Loan Note”: as defined in subsection 2.3(e).

“Insolvency” or “Insolvent”: at any particular time, a Multiemployer Plan which is insolvent within the meaning of Section 4245 of ERISA.

“Insurance Regulation”: any law, regulation, rule, directive or order applicable and specific to an insurance company.

“Insurance Regulator”: any Person charged with the administration, oversight or enforcement of any Insurance Regulation.

“Insurance Subsidiary”: any Subsidiary of the Company that is now or hereafter doing business (or required to qualify or to be licensed) under Insurance Regulations.

“Interest Payment Date”: (a) as to any Alternate Base Rate Loan, the last day of each March, June, September and December, commencing on the first of such days to occur after Alternate Base Rate Loans are made or Eurodollar Loans are converted to Alternate Base Rate Loans and the final maturity date of such Loan, (b) as to any Eurodollar Loan in respect of which the Company has selected an Interest Period of one, two or three months, the last day of such Interest Period, (c) as to any CAF Loan in respect of which the Company has selected an Interest Period not exceeding 90 days or three months, as the case may be, the last day of such Interest Period and (d) as to any Eurodollar Loan in respect of which the Company has selected a longer Interest Period than the periods described in clause (b) and as to any CAF Loan in respect of which the

Company has selected a longer Interest Period than the periods described in clause (c), each day that is three months, or a whole multiple thereof, after the first day of such Interest Period, and the last day of such Interest Period.

“Interest Period”: (a) with respect to any Eurodollar Loans:

(i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loans and ending one, two, three or six months thereafter (or, with the consent of all the Banks, nine or twelve months thereafter), as selected by the Company in its notice of borrowing as provided in subsection 2.1(b) or its notice of conversion as provided in subsection 2.7(a), as the case may be; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loans and ending one, two, three or six months thereafter (or, with the consent of all the Banks, nine or twelve months thereafter), as selected by the Company by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect to such Eurodollar Loans;

provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(1) if any Interest Period pertaining to a Eurodollar Loan would otherwise end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(2) if the Company shall fail to give notice as provided above, the Company shall be deemed to have selected an Alternate Base Rate Loan to replace the affected Eurodollar Loan;

(3) any Interest Period pertaining to a Eurodollar Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(4) any interest period pertaining to a Eurodollar Loan that would otherwise end after the Termination Date shall end on the Termination Date; and

(5) the Company shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan; and

(b) with respect to any CAF Loans, the period commencing on the Borrowing Date therefor and ending on the maturity date for such CAF Loans as set forth in subsection 2.2(b)(i).

“Interest Rate Protection Agreement”: any interest rate protection agreement, interest rate futures contract, interest rate option, interest rate cap or other interest rate hedge arrangement to or under which the Company or any of its Subsidiaries is a party or a beneficiary on the date hereof or becomes a party or a beneficiary after the date hereof.

“Issuing Bank”: JPMorgan Chase Bank, in its capacity as issuer of any Letter of Credit, or any other Bank as may be selected by the Company, with the written consent of the Agent, such consent not to be unreasonably withheld.

“L/C Obligations”: at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit which have not then been reimbursed pursuant to subsection 3.5.

“L/C Participants”: the collective reference to all the Banks other than the Issuing Bank.

“L/C Sublimit”: \$100,000,000.

“Lender Affiliate”: (a) any Affiliate of any Bank, (b) any Person that is administered or managed by any Bank and that is engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business and (c) with respect to any Bank which is a fund that invests in commercial loans and similar extensions of credit, any other fund that invests in commercial loans and similar extensions of credit and is managed or advised by the same investment advisor as such Bank or by an Affiliate of such Bank or investment advisor.

“Letters of Credit”: as defined in subsection 3.1(a).

“Leverage Ratio”: at the last day of any full fiscal quarter of the Company, the ratio of (a) all Indebtedness of the Company and its Subsidiaries outstanding on such date to (b) Consolidated EBITDA for the period of four fiscal quarters of the Company ended on such day.

“LIBOR Auction Advance Request”: any CAF Loan Request requesting the CAF Loan Banks to offer to make CAF Loans at an interest rate equal to the Applicable LIBOR Auction Advance Rate plus or minus a margin.

“Lien”: any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement that has the same practical effect as any of the foregoing (including, without limitation, any conditional sale or other title retention agreement, or any financing lease having substantially the same economic effect as any of the foregoing).

“Loan”: any loan made by any Bank pursuant to this Agreement.

“Loan Documents”: this Agreement, the Notes and the Applications.

“Margin Stock”: as defined in Regulation U.

“Margin Stock Collateral”: all Margin Stock (other than Portfolio Margin Stock) of the Company and its Subsidiaries by which the Loans are deemed “indirectly secured” within the meaning of Regulation U.

“Material Adverse Effect”: any material adverse effect on (a) the business, assets, operations or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement and the Notes or (c) the rights and remedies of the Banks with respect to the Company and its Subsidiaries under any of the Loan Documents.

“Multiemployer Plan”: a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Non-U.S. Bank”: as defined in subsection 2.15(b).

“Note”: any Revolving Credit Note or CAF Loan Note.

“Other Collateral”: all assets of the Company and its Subsidiaries (other than Margin Stock) by which the Loans are deemed “indirectly secured” within the meaning of Regulation U.

“Participants”: as defined in subsection 10.6(b).

“Payment Sharing Notice”: a written notice from the Company, or any Bank, informing the Agent that an Event of Default has occurred and is continuing and directing the Agent to allocate payments thereafter received from the Company in accordance with subsection 2.11(c).

“PBGC”: the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

“Person”: an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“Plan”: at a particular time, any employee benefit plan which is covered by Title IV of ERISA and in respect of which the Company or a Control Group Person is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Portfolio Margin Stock”: Margin Stock held by Insurance Subsidiaries or HMO Subsidiaries as portfolio investments, to which the restrictions of Section 7 shall not apply.

“Pricing Grid”: the Pricing Grid set forth in Schedule II.

“Purchasing Banks”: as defined in subsection 10.6(d).

“Reference Banks”: JPMorgan Chase Bank, Citibank N.A., Bank of America, N.A., U.S. Bank National Association and Wachovia Bank, National Association.

“Register”: as defined in subsection 10.6(e).

“Regulation T”: Regulation T of the Board of Governors of the Federal Reserve System.

“Regulation U”: Regulation U of the Board of Governors of the Federal Reserve System.

“Regulation X”: Regulation X of the Board of Governors of the Federal Reserve System.

“Reimbursement Obligation”: the obligation of the Company to reimburse the Issuing Bank pursuant to subsection 3.5 for amounts drawn under Letters of Credit.

“Reorganization”: with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of such term as used in Section 4241 of ERISA.

“Reportable Event”: any of the events set forth in Section 4043(b) of ERISA, the occurrence of which could reasonably be expected to have a Material Adverse Effect, other than those events as to which the thirty day notice period is waived under subsections .22, .23, .25, .27 or .28 of PBGC Reg. § 4043.

“Required Banks”: (a) during the Commitment Period, Banks whose Commitment Percentages aggregate at least 51% and (b) after the Commitments have expired or been terminated, Banks whose outstanding Loans and L/C Obligations represent in the aggregate at least 51% of all outstanding Loans and L/C Obligations.

“Requirement of Law”: as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Responsible Officer”: the chief executive officer, the president, any executive or senior vice president or vice president of the Company, the chief financial officer, treasurer or controller of the Company.

“Revolving Credit Loans”: as defined in subsection 2.1(a).

“Revolving Credit Notes”: as defined in subsection 2.3(e).

“Riverview Square”: the office building of the Company located at 201 West Main Street, Louisville, Kentucky 40202.

“Significant Subsidiary”: means, at any particular time, any Subsidiary of the Company that would be a “significant subsidiary” of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the Securities Exchange Commission.

“Single Employer Plan”: any Plan which is not a Multiemployer Plan.

“Solvent”: with respect to any Person (or group of Persons) on a particular date, that on such date (i) the fair value of the property of such Person (or group of Persons) is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person (or group of Persons), (ii) the present fair salable value of the assets of such Person (or group of Persons) is not less than the amount that will be required to pay the probable liability of such Person (or group of Persons) on its debts as they become absolute and matured, (iii) such Person (or group of Persons) is able to pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (iv) such Person (or group of Persons) does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s (or group of Person’s) ability to pay as such debts and liabilities mature, (v) such Person (or group of Persons) is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which such Person’s (or group of Person’s) property (after giving effect to any engagement in such business or transaction) would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person (or group of Persons) is engaged and (vi) such Person (or group of Persons) is solvent under all applicable HMO Regulations and Insurance Regulations. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“Standby Letter of Credit”: as defined in subsection 3.1(a).

“Subsidiary”: as to any Person, a corporation of which shares of stock having ordinary voting power (other than stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Company.

“Synthetic Lease”: each arrangement, however described, under which the obligor accounts for its interest in the property covered thereby under GAAP as lessee of a lease which is not a capital lease under GAAP and accounts for its interest in the property covered thereby for Federal income tax purposes as the owner.

“Synthetic Lease Interest Components”: with respect to any Person for any period, the portion of rent paid or payable (without duplication) for such period under Synthetic Leases for such Person that would be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13 if such Synthetic Leases were treated as capital leases under GAAP.

“Synthetic Lease Obligation”: as to any Person with respect to any Synthetic Lease at any time of determination, the amount of the liability of such Person in respect of such Synthetic Lease that would (if such lease was required to be classified and accounted for as a capital lease on a balance sheet of such Person in accordance with GAAP) be required to be capitalized on the balance sheet of such Person at such time.

“Taxes”: as defined in subsection 2.15.

“Termination Date”: the date one day before the fifth anniversary of the Closing Date (or, if such date is not a Business Day, the next preceding Business Day).

“Transfer Effective Date”: as defined in each Commitment Transfer Supplement.

“Transferee”: as defined in subsection 10.6(g).

“Type”: as to any Revolving Credit Loan, its nature as an Alternate Base Rate Loan or Eurodollar Loan.

“Uniform Customs”: the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

“Voting Stock”: of any corporation, shares of capital stock or other securities of such corporation entitled to vote generally in the election of directors of such corporation.

“Waterside Building”: the real property located at 101 East Main Street, Louisville, Kentucky 40202, including the building housing insurance claim processing operations of the Company.

“Waterside Garage”: the parking garage of the Company located at 201 North Brook Street, Louisville, Kentucky 40202.

“Working Day”: any Business Day on which dealings in foreign currencies and exchange between banks may be carried on in London, England.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, accounting terms relating to the Company and its Subsidiaries not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. AMOUNT AND TERMS OF LOANS

2.1 Revolving Credit Loans. (a) Subject to the terms and conditions hereof, each Bank severally agrees to make loans (“Revolving Credit Loans”) to the Company from time to time during the Commitment Period in an aggregate principal amount at any one time outstanding which, when added to such Bank’s Commitment Percentage of the then outstanding L/C Obligations, does not exceed the Commitment of such Bank, provided that the Aggregate Outstanding Extensions of Credit of all Banks shall not at any time exceed the aggregate amount of the Commitments. During the Commitment Period the Company may use the Commitments by borrowing, prepaying the Revolving Credit Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Revolving Credit Loans may be (i) Eurodollar Loans, (ii) Alternate Base Rate Loans or (iii) a combination thereof, as determined by the Company and notified to the Agent in accordance with subsection 2.1(b). Eurodollar Loans shall be made and maintained by each Bank at its Eurodollar Lending Office, and Alternate Base Rate Loans shall be made and maintained by each Bank at its Domestic Lending Office.

(b) The Company may borrow under the Commitments during the Commitment Period on any Working Day if the borrowing is of Eurodollar Loans or on any Business Day if the borrowing is of Alternate Base Rate Loans; provided that the Company shall give the Agent irrevocable notice (which notice must be received by the Agent (i) prior to 11:30 A.M., New York City time three Working Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, and (ii) prior to 12:00 P.M., New York City time, on the requested Borrowing Date, in the case of Alternate Base Rate Loans), specifying (A) the amount to be borrowed, (B) the requested Borrowing Date, (C) whether the borrowing is to be of Eurodollar Loans, Alternate Base Rate Loans, or a combination thereof, and (D) if the borrowing is to be entirely or partly of Eurodollar Loans, the length of the Interest Period therefor. Each borrowing pursuant to the Commitments shall be in an aggregate principal amount equal to the lesser of (i) \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof and (ii) the then Available Commitments. Upon receipt of such notice from the Company, the Agent shall promptly notify each Bank thereof. Each Bank will make the amount of its pro rata share of each borrowing available to the Agent for the account of the Company at the office of the Agent set forth in subsection 10.2 prior to 2:00 P.M., New York City time, on the Borrowing Date requested by the Company in funds immediately available to the Agent. The proceeds of all such Revolving Credit Loans will then be promptly made available to the Company by the Agent at such office of the Agent by crediting the account of the Company on the books of such office with the aggregate of the amounts made available to the Agent by the Banks.

2.2 CAF Loans. (a) The Company may borrow CAF Loans from time to time on any Business Day (in the case of CAF Loans made pursuant to a Fixed Rate Auction Advance Request) or any Working Day (in the case of CAF Loans made pursuant to a LIBOR Auction Advance Request) during the period from the Closing Date until the date occurring 14 days prior to the Termination Date in the manner set forth in this subsection 2.2 and in amounts such that the Aggregate Outstanding Extensions of Credit of all Banks at any time shall not exceed the aggregate amount of the Commitments at such time.

(b) (i) The Company shall request CAF Loans by delivering a CAF Loan Request to the CAF Loan Agent, not later than 12:00 Noon (New York City time) four Working Days prior to the proposed Borrowing Date (in the case of a LIBOR Auction Advance Request), and not later than 10:00 A.M. (New York City time) one Business Day prior to the proposed Borrowing Date (in the case of a Fixed Rate Auction Advance Request). Each CAF Loan Request may solicit bids for CAF Loans in an aggregate principal amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and for not more than three alternative maturity dates for such CAF Loans. The maturity date for each CAF Loan (x) if made pursuant to a Fixed Rate Auction Advance Request, shall be not less than 7 days nor more than 360 days after the Borrowing Date therefor (and in any event not after the Termination Date) and (y) if made pursuant to a LIBOR Auction Advance Request, shall be one, two, three, six, nine or twelve months after the Borrowing Date therefor (and in any event not after the Termination Date). The CAF Loan Agent shall promptly notify each CAF Loan Bank by facsimile transmission of the contents of each CAF Loan Request received by it.

(ii) In the case of a LIBOR Auction Advance Request, upon receipt of notice from the CAF Loan Agent of the contents of such CAF Loan Request, any CAF Loan Bank that elects, in its sole discretion, to do so, shall irrevocably offer to make one or more CAF Loans at the Applicable LIBOR Auction Advance Rate plus or minus a margin for each such CAF Loan determined by such CAF Loan Bank in its sole discretion. Any such irrevocable offer shall be made by delivering a CAF Loan Offer to the CAF Loan Agent, before 9:30 A.M., New York City time, three Working Days before the proposed Borrowing Date, setting forth the maximum amount of CAF Loans for each maturity date, and the aggregate maximum amount for all maturity dates, which such Bank would be willing to make (which amounts may, subject to subsection 2.2(a), exceed such CAF Loan Bank's Commitment) and the margin above or below the Applicable LIBOR Auction Advance Rate at which such CAF Loan Bank is willing to make each such CAF Loan; the CAF Loan Agent shall advise the Company before 10:00 A.M., New York City time, three Working Days before the proposed Borrowing Date of the contents of each such CAF Loan Offer received by it. If the CAF Loan Agent in its capacity as a CAF Loan Bank shall, in its sole discretion, elect to make any such offer, it shall advise the Company of the contents of its CAF Loan Offer before 9:00 A.M., New York City time, three Working Days before the proposed Borrowing Date.

(iii) In the case of a Fixed Rate Auction Advance Request, upon receipt of notice from the Agent of the contents of such CAF Loan Request, any CAF Loan Bank that elects, in its sole discretion, to do so, shall irrevocably offer to make one or more CAF Loans at a rate or rates of interest for each such CAF Loan determined by such CAF Loan Bank in its sole discretion. Any such irrevocable offer shall be made by delivering a CAF Loan Offer to the CAF Loan Agent, before 9:30 A.M., New York City time, on the proposed Borrowing Date, setting forth the maximum amount of CAF Loans for each maturity date, and the aggregate maximum amount for all maturity dates, which such CAF Loan Bank would be willing to make (which amounts may, subject to subsection 2.2(a), exceed such CAF Loan Bank's Commitment) and the rate or rates of interest at which such CAF Loan Bank is willing to make each such CAF Loan; the CAF Loan Agent shall advise the Company before 10:15 A.M., New York City time, on the proposed Borrowing Date of the contents of each such CAF Loan Offer received by it. If the CAF Loan Agent or any affiliate thereof in its capacity as a CAF Loan Bank shall, in its sole discretion, elect to make any such offer, it shall advise the Company of the contents of its CAF Loan Offer before 9:15 A.M., New York City time, on the proposed Borrowing Date.

(iv) The Company shall before 11:00 A.M., New York City time, three Working Days before the proposed Borrowing Date (in the case of CAF Loans requested by a LIBOR Auction Advance Request) and before 11:00 A.M., New York City time, on the proposed Borrowing Date (in the case of CAF Loans requested by a Fixed Rate Auction Advance Request) either, in its absolute discretion:

(A) cancel such CAF Loan Request by giving the CAF Loan Agent telephone notice to that effect, or

(B) accept one or more of the offers made by any CAF Loan Bank or CAF Loan Banks pursuant to clause (ii) or clause (iii) above, as the case may be, by giving telephone notice to the CAF Loan Agent (immediately confirmed by delivery to the CAF Loan Agent of a CAF Loan Confirmation) of the amount of CAF Loans for each relevant maturity date to be made by each CAF Loan Bank (which amount for each such maturity date shall be equal to or less than the maximum amount for such maturity date specified in the CAF Loan Offer of such CAF Loan Bank, and for all maturity dates included in such CAF Loan Offer shall be equal to or less than the aggregate maximum amount specified in such CAF Loan Offer for all such maturity dates) and reject any remaining offers made by CAF Loan Banks pursuant to clause (ii) or clause (iii) above, as the case may be; provided, however, that (x) the Company may not accept offers for CAF Loans for any maturity date in an aggregate principal amount in excess of the maximum principal amount requested in the related CAF Loan Request, (y) if the Company accepts any of such offers, it must accept offers strictly based upon pricing for such relevant maturity date and no other criteria whatsoever and (z) if two or more CAF Loan Banks submit offers for any maturity date at identical pricing and the Company accepts any of such offers but does not wish to borrow the total amount offered by such CAF Loan Banks with such identical pricing, the Company shall accept offers from all of such CAF Loan Banks in amounts allocated among them pro rata according to the amounts offered by such CAF Loan Banks (or as nearly pro rata as shall be practicable after giving effect to the requirement that CAF Loans made by a CAF Loan Bank on a Borrowing Date for each relevant maturity date shall be in a principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof provided that if the number of CAF Loan Banks that submit offers for any maturity date at identical pricing is such that, after the Company accepts such offers pro rata in accordance with the foregoing, the CAF Loans to be made by such CAF Loan Banks would be less than \$5,000,000 principal amount, the number of such CAF Loan Banks shall be reduced by the CAF Loan Agent by lot until the CAF Loans to be made by such remaining CAF Loan Banks would be in a principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof).

(v) If the Company notifies the CAF Loan Agent that a CAF Loan Request is cancelled pursuant to clause (iv)(A) above, the CAF Loan Agent shall give prompt, but in no event more than one hour later, telephone notice thereof to the CAF Loan Banks, and the CAF Loans requested thereby shall not be made.

(vi) If the Company accepts pursuant to clause (iv)(B) above one or more of the offers made by any CAF Loan Bank or CAF Loan Banks, the CAF Loan Agent shall promptly, but in no event more than one hour later, notify each CAF Loan Bank which has made such an offer of the aggregate amount of such CAF Loans to be made on such Borrowing Date for each maturity date and of the acceptance or rejection of any offers to make such CAF Loans

made by such CAF Loan Bank. Each CAF Loan Bank which is to make a CAF Loan shall, before 12:00 Noon, New York City time, on the Borrowing Date specified in the CAF Loan Request applicable thereto, make available to the Agent at its office set forth in subsection 10.2 the amount of CAF Loans to be made by such CAF Loan Bank, in immediately available funds. The Agent will make such funds available to the Company as soon as practicable on such date at the Agent's aforesaid address. As soon as practicable after each Borrowing Date, the Agent shall notify each Bank of the aggregate amount of CAF Loans advanced on such Borrowing Date and the respective maturity dates thereof.

(c) Within the limits and on the conditions set forth in this subsection 2.2, the Company may from time to time borrow under this subsection 2.2, repay pursuant to subsection 2.3, and reborrow under this subsection 2.2.

2.3 Repayment of Loans: Evidence of Debt. (a) The Company hereby unconditionally promises to pay to the Agent for the account of each Bank (i) the then unpaid principal amount of each Revolving Credit Loan of such Bank on the Termination Date (or such earlier date on which the Loans become due and payable pursuant to Section 8), and (ii) the principal amount of each CAF Loan made by such Bank on the maturity date therefor as set forth in the CAF Loan Request for such CAF Loan (or on such earlier date on which the Loans become due and payable pursuant to Section 8). The Company hereby further agrees to pay interest on the unpaid principal amount of the Loans from time to time outstanding from the date hereof until payment in full thereof at the rates per annum, and on the dates, set forth in subsection 2.8.

(b) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of the Company to such Bank resulting from each Loan of such Bank from time to time, including the amounts of principal and interest payable and paid to such Bank from time to time under this Agreement.

(c) The Agent shall maintain the Register pursuant to subsection 10.6(e), and a subaccount therein for each Bank, in which shall be recorded (i) (A) the amount of each Revolving Credit Loan made hereunder, the Type thereof and each Interest Period applicable thereto and (B) the amount of each CAF Loan made by such Bank, the maturity date therefor as set forth in the CAF Loan Request for such CAF Loan, the interest rate applicable thereto and each Interest Payment Date applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Company to each Bank hereunder and (iii) both the amount of any sum received by the Agent hereunder from the Company and each Bank's share thereof.

(d) The entries made in the Register and the accounts of each Bank maintained pursuant to subsection 2.3(b) shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amounts of the obligations of the Company therein recorded; provided, however, that the failure of any Bank or the Agent to maintain the Register or any such account, or any error therein, shall not in any manner affect the obligation of the Company to repay (with applicable interest) the Loans made to such Company by such Bank in accordance with the terms of this Agreement.

(e) The Company agrees that, upon the request to the Agent by any Bank, the Company will execute and deliver to such Bank (i) a promissory note of the Company

evidencing the Revolving Credit Loans of such Bank, substantially in the form of Exhibit A with appropriate insertions as to payee, date and principal amount (a "Revolving Credit Note"), (ii) a promissory note of the Company evidencing the initial CAF Loan or Loans of such Bank, substantially in the form of Exhibit B with appropriate insertions (a "Grid CAF Loan Note"), and/or (iii) a promissory note of the Company evidencing amounts advanced by such Bank pursuant to subsection 2.2 which have the same maturity date and interest rate as amounts advanced by such Bank evidenced by a Grid CAF Loan Note and which such Bank wishes to constitute more than one CAF Loan (which principal amounts shall not be less than \$5,000,000 for any such CAF Loans), substantially in the form of Exhibit C with appropriate insertions (an "Individual CAF Loan Note"). Upon a Bank's receipt of an Individual CAF Loan Note evidencing a CAF Loan, such Bank shall endorse on the schedule attached to its Grid CAF Loan Note the transfer of such CAF Loan from such Grid CAF Loan Note to such Individual CAF Loan Note.

2.4 Fees. (a) The Company agrees to pay to the Agent, for the account of each Bank, on the last day of each fiscal quarter and on the Termination Date, a facility fee in respect of the average daily amount of the Commitment of such Bank during such fiscal quarter. Such fee shall be computed at the applicable rate per annum set forth in the Pricing Grid.

(b) The Company agrees to pay to the Agent, for the account of each Bank, a utilization fee for each Excess Utilization Day at a rate per annum equal to 0.125% on the amount of such Bank's Aggregate Outstanding Extensions of Credit on such Excess Utilization Day. Any accrued utilization fees shall be payable in arrears on the last day of March, June, September and December of each year, commencing on the first such date to occur after the date hereof; provided that any utilization fees accruing after the date on which the Commitments terminate shall be payable on demand. All utilization fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Company agrees to pay to the Agent the other fees in the amounts, and on the dates, agreed to by the Company and the Agent in the fee letter, dated July 29, 2004, between the Agent and the Company. The Agent will distribute to the Banks their respective portions of upfront fees paid by the Company to the Agent, as agreed between the Agent and each Bank.

2.5 Termination or Reduction of Commitments. The Company shall have the right, upon not less than five Business Days' notice to the Agent, to terminate the Commitments or, from time to time, to reduce ratably the amount of the Commitments, provided that no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments of the Loans made on the effective date thereof, the then outstanding principal amount of the Loans, when added to the then L/C Obligations, would exceed the amount of the Commitments then in effect. Any such reduction shall be in an amount of \$10,000,000 or a whole multiple of \$1,000,000 in excess thereof, and shall reduce permanently the amount of the Commitments then in effect.

2.6 Optional Prepayments. The Company may at any time and from time to time, prepay the Revolving Credit Loans, in whole or in part, without premium or penalty (subject to the provisions of subsection 2.16), upon at least three Business Days' irrevocable notice to the Agent in the case of Eurodollar Loans and one Business Day's irrevocable notice to

the Agent in the case of Alternate Base Rate Loans, specifying the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or Alternate Base Rate Loans or a combination thereof, and if of a combination thereof, the amount of prepayment allocable to each. Upon receipt of such notice the Agent shall promptly notify each Bank thereof. If such notice is given, the payment amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to such date on the amount prepaid. Partial prepayments shall be in an aggregate principal amount of \$5,000,000, or a whole multiple thereof, and may only be made if, after giving effect thereto, subsection 2.7(c) shall not have been contravened.

2.7 Conversion Options: Minimum Amount of Loans.

(a) The Company may elect from time to time to convert Eurodollar Loans to Alternate Base Rate Loans by giving the Agent at least two Business Days' prior irrevocable notice of such election (given before 10:00 A.M., New York City time, on the date on which such notice is required), provided that any such conversion of Eurodollar Loans shall, subject to the fourth following sentence, only be made on the last day of an Interest Period with respect thereto. The Company may elect from time to time to convert Alternate Base Rate Loans to Eurodollar Loans by giving the Agent at least three Working Days' prior irrevocable notice of such election (given before 11:30 A.M., New York City time, on the date on which such notice is required). Upon receipt of such notice, the Agent shall promptly notify each Bank thereof. Promptly following the date on which such conversion is being made each Bank shall take such action as is necessary to transfer its portion of such Revolving Credit Loans to its Domestic Lending Office or its Eurodollar Lending Office, as the case may be. All or any part of outstanding Eurodollar Loans and Alternate Base Rate Loans may be converted as provided herein, provided that, unless the Required Banks otherwise agree, (i) no Revolving Credit Loan may be converted into a Eurodollar Loan when any Event of Default has occurred and is continuing, (ii) partial conversions shall be in an aggregate principal amount of \$5,000,000 or a whole multiple thereof, and (iii) any such conversion may only be made if, after giving effect thereto, subsection 2.7(c) shall not have been contravened.

(b) Any Eurodollar Loans may be continued as such upon the expiration of an Interest Period with respect thereto by compliance by the Company with the notice provisions contained in subsection 2.7(a); provided that, unless the Required Banks otherwise agree, no Eurodollar Loan may be continued as such when any Event of Default has occurred and is continuing, but shall be automatically converted to an Alternate Base Rate Loan on the last day of the then current Interest Period with respect thereto. The Agent shall notify the Banks promptly that such automatic conversion contemplated by this subsection 2.7(b) will occur.

(c) All borrowings, conversions, payments, prepayments and selection of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of the Loans comprising any Eurodollar Tranche shall not be less than \$10,000,000. At no time shall there be more than six Eurodollar Tranches.

2.8 Interest Rate and Payment Dates for Loans. (a) The Eurodollar Loans comprising each Eurodollar Tranche shall bear interest for each day during each Interest Period with respect thereto on the unpaid principal amount thereof at a rate per annum equal to the Eurodollar Rate plus the Applicable Margin.

(b) Alternate Base Rate Loans shall bear interest for each day from and including the date thereof on the unpaid principal amount thereof at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin.

(c) CAF Loans shall bear interest from the Borrowing Date to the maturity date therefor as set forth in the CAF Loan Request for such CAF Loan on the unpaid principal amount thereof at the rate of interest determined pursuant to subsection 2.2(b).

(d) If all or a portion of the (i) principal amount of any Loans, (ii) any interest payable thereon or (iii) any fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum which is 2% above the Alternate Base Rate from the date of such non-payment until paid in full (after as well as before judgment). If all or a portion of the principal amount of any Loans shall not be paid when due (whether at stated maturity, by acceleration or otherwise), each Eurodollar Loan shall, unless the Required Banks otherwise agree, be converted to an Alternate Base Rate Loan at the end of the last Interest Period with respect thereto.

(e) Interest shall be payable in arrears on each Interest Payment Date.

2.9 Computation of Interest and Fees. (a) Interest in respect of Alternate Base Rate Loans shall be calculated on the basis of a (i) 365-day (or 366-day, as the case may be) year for the actual days elapsed when such Alternate Base Rate Loans are based on the Prime Rate, and (ii) a 360-day year for the actual days elapsed when based on the Base CD Rate or the Federal Funds Effective Rate. Interest in respect of Eurodollar Loans and CAF Loans shall be calculated on the basis of a 360-day year for the actual days elapsed. The Agent shall as soon as practicable notify the Company and the Banks of each determination of a Eurodollar Rate. Any change in the interest rate on a Revolving Credit Loan resulting from a change in the Alternate Base Rate or the Applicable Margin or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change in the Alternate Base Rate is announced, such Applicable Margin changes as provided herein or such change in the Eurocurrency Reserve Requirements shall become effective, as the case may be. The Agent shall as soon as practicable notify the Company and the Banks of the effective date and the amount of each such change.

(b) Each determination of an interest rate by the Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Company and the Banks in the absence of manifest error. The Agent shall, at the request of the Company, deliver to the Company a statement showing the quotations used by the Agent in determining any interest rate pursuant to subsection 2.8.

(c) If any Reference Bank's Commitment shall terminate (otherwise than on termination of all the Commitments), or its Revolving Credit Loans shall be assigned for any reason whatsoever, such Reference Bank shall thereupon cease to be a Reference Bank, and if, as

a result of the foregoing, there shall only be one Reference Bank remaining, then the Agent (after consultation with the Company and the Banks) shall, by notice to the Company and the Banks, designate another Bank as a Reference Bank so that there shall at all times be at least two Reference Banks.

(d) Each Reference Bank shall use its best efforts to furnish quotations of rates to the Agent as contemplated hereby. If any of the Reference Banks shall be unable or otherwise fails to supply such rates to the Agent upon its request, the rate of interest shall be determined on the basis of the quotations of the remaining Reference Banks or Reference Bank.

(e) Facility fees shall be computed on the basis of a 365-day year for the actual days elapsed.

2.10 Inability to Determine Interest Rate. In the event that:

(i) the Agent shall have determined in its reasonable judgment (which determination shall be conclusive and binding upon the Company) that, by reason of circumstances affecting the interbank eurodollar market generally, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for any requested Interest Period;

(ii) only one of the Reference Banks is able to obtain bids for its Dollar deposits for such Interest Period in the manner contemplated by the term "Eurodollar Rate"; or

(iii) the Agent shall have received notice prior to the first day of such Interest Period from Banks constituting the Required Banks that the interest rate determined pursuant to subsection 2.8(a) for such Interest Period does not accurately reflect the cost to such Banks (as conclusively certified by such Banks) of making or maintaining their affected Loans during such Interest Period;

with respect to (A) proposed Revolving Credit Loans that the Company has requested be made as Eurodollar Loans, (B) Eurodollar Loans that will result from the requested conversion of Alternate Base Rate Loans into Eurodollar Loans or (C) the continuation of Eurodollar Loans beyond the expiration of the then current Interest Period with respect thereto, the Agent shall forthwith give facsimile or telephonic notice of such determination to the Company and the Banks at least one day prior to, as the case may be, the requested Borrowing Date for such Eurodollar Loans, the conversion date of such Loans or the last day of such Interest Period. If such notice is given (x) any requested Eurodollar Loans shall be made as Alternate Base Rate Loans, (y) any Alternate Base Rate Loans that were to have been converted to Eurodollar Loans shall be continued as Alternate Base Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the last day of the then current Interest Period with respect thereto, to Alternate Base Rate Loans. Until such notice has been withdrawn by the Agent, no further Eurodollar Loans shall be made, nor shall the Company have the right to convert Alternate Base Rate Loans to Eurodollar Loans. The Agent shall withdraw such notice upon its determination that the event or events which gave rise to such notice no longer exist.

2.11 Pro Rata Borrowings and Payments. (a) Each borrowing by the Company of Revolving Credit Loans shall be made ratably from the Banks in accordance with their Commitment Percentages.

(b) Whenever any payment received by the Agent under this Agreement or any Note is insufficient to pay in full all amounts then due and payable to the Agent and the Banks under this Agreement and the Notes, and the Agent has not received a Payment Sharing Notice (or if the Agent has received a Payment Sharing Notice but the Event of Default specified in such Payment Sharing Notice has been cured or waived), such payment shall be distributed and applied by the Agent and the Banks in the following order: first, to the payment of fees and expenses due and payable to the Agent under and in connection with this Agreement; second, to the payment of all expenses due and payable under subsection 10.5(a), ratably among the Banks in accordance with the aggregate amount of such payments owed to each such Bank; third, to the payment of fees due and payable under (i) subsection 2.4, ratably among the Banks in accordance with their Commitment Percentages, (ii) the first sentence of subsection 3.3(a) ratably among the L/C Participants in accordance with their Commitment Percentage and (iii) the second sentence of subsection 3.3(a) to the Issuing Bank; fourth, to the payment of interest then due and payable on the Loans, ratably among the Banks in accordance with the aggregate amount of interest owed to each such Bank; and fifth, to the payment of the principal amount of the Loans which is then due and payable, ratably among the Banks in accordance with the aggregate principal amount owed to each such Bank.

(c) After the Agent has received a Payment Sharing Notice which remains in effect, all payments received by the Agent under this Agreement or any Note shall be distributed and applied by the Agent and the Banks in the following order: first, to the payment of all amounts described in clauses first through third of the foregoing paragraph (b), in the order set forth therein; and second, to the payment of the interest accrued on and the principal amount of all of the Loans, regardless of whether any such amount is then due and payable, ratably among the Banks in accordance with the aggregate accrued interest plus the aggregate principal amount owed to such Bank.

(d) All payments (including prepayments) to be made by the Company on account of principal, interest and fees shall be made without set-off or counterclaim and shall be made to the Agent, for the account of the Banks, at the Agent's office set forth in subsection 10.2, in lawful money of the United States of America and in immediately available funds. The Agent shall distribute such payments to the Banks promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the CAF Loans made pursuant to a LIBOR Auction Advance Request) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension. If any payment on a CAF Loan made pursuant to a LIBOR Auction Advance Request becomes due and payable on a day other than a Working Day, the maturity thereof shall be extended to the next succeeding Working Day unless the result of such extension would be to extend such payment into another calendar month in which event such payment shall be made on the immediately preceding Working Day.

(e) Unless the Agent shall have been notified in writing by any Bank prior to a Borrowing Date that such Bank will not make the amount which would constitute its Commitment Percentage of the borrowing of Revolving Credit Loans on such date available to

the Agent, the Agent may assume that such Bank has made such amount available to the Agent on such Borrowing Date, and the Agent may, in reliance upon such assumption, make available to the Company a corresponding amount. If such amount is made available to the Agent on a date after such Borrowing Date, such Bank shall pay to the Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate during such period as quoted by the Agent, times (ii) the amount of such Bank's Commitment Percentage of such borrowing, times (iii) a fraction the numerator of which is the number of days that elapse from and including such Borrowing Date to the date on which such Bank's Commitment Percentage of such borrowing shall have become immediately available to the Agent and the denominator of which is 360. A certificate of the Agent submitted to any Bank with respect to any amounts owing under this subsection 2.11(e) shall be conclusive, absent manifest error. If such Bank's Commitment Percentage of such borrowing is not in fact made available to the Agent by such Bank within three Business Days of such Borrowing Date, the Agent shall be entitled to recover such amount with interest thereon at the rate per annum applicable to Alternate Base Rate Loans hereunder, on demand, from the Company.

2.12 Illegality. Notwithstanding any other provisions herein, if after the date hereof the adoption of or any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the Bank shall, within 30 Working Days after it becomes aware of such fact, notify the Company, through the Agent, of such fact, (b) the commitment of such Bank hereunder to make Eurodollar Loans or convert Alternate Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (c) such Bank's Revolving Credit Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Alternate Base Rate Loans on the respective last days of the then current Interest Periods for such Revolving Credit Loans or within such earlier period as required by law. Each Bank shall take such action as may be reasonably available to it without material legal or financial disadvantage (including changing its Eurodollar Lending Office) to prevent the adoption of or any change in any such Requirement of Law from becoming applicable to it.

2.13 Requirements of Law. (a) If after the date hereof the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Bank with any request or directive (whether or not having the force of law) after the date hereof from any central bank or other Governmental Authority:

(i) shall subject any Bank to any tax of any kind whatsoever (other than a withholding tax) with respect to this Agreement, any Revolving Credit Note, any Letter of Credit, any Application or any Eurodollar Loans made by it, or change the basis of taxation of payments to such Bank of principal, facility fee, interest or any other amount payable hereunder in respect of Revolving Credit Loans (except for changes in the rate of tax on the overall net income of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of such Bank which are not otherwise included in the determination of the Eurodollar Rate hereunder; or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the cost to such Bank, by any amount which such Bank reasonably deems to be material, of making, renewing or maintaining advances or extensions of credit (including, without limitation, issuing or participating in Letters of Credit) or to reduce any amount receivable hereunder, in each case, in respect thereof, then, in any such case, the Company shall promptly pay such Bank, upon its demand, any additional amounts necessary to compensate such Bank for such additional cost or reduced amount receivable; provided, however, that notwithstanding anything contained in this subsection 2.13(a) to the contrary, such Bank shall not be entitled to receive any amounts pursuant to this subsection 2.13(a) that it is also entitled to pursuant to subsection 2.15(a). If a Bank becomes entitled to claim any additional amounts pursuant to this subsection 2.13(a), it shall, within 30 Business Days after it becomes aware of such fact, notify the Company, through the Agent, of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by such Bank, through the Agent, to the Company shall be conclusive in the absence of manifest error. Each Bank shall take such action as may be reasonably available to it without legal or financial disadvantage (including changing its Eurodollar Lending Office) to prevent any such Requirement of Law or change from becoming applicable to it. This covenant shall survive the termination of this Agreement and payment of the outstanding Revolving Credit Notes and all other amounts payable hereunder.

(b) In the event that after the date hereof a Bank is required to maintain reserves of the type contemplated by the definition of "Eurocurrency Reserve Requirements", such Bank may require the Company to pay, promptly after receiving notice of the amount due, additional interest on the related Eurodollar Loan of such Bank at a rate per annum determined by such Bank up to but not exceeding the excess of (i) (A) the applicable Eurodollar Rate divided by (B) one minus the Eurocurrency Reserve Requirements over (ii) the applicable Eurodollar Rate. Any Bank wishing to require payment of any such additional interest on account of any of its Eurodollar Loans shall notify the Company no more than 30 Working Days after each date on which interest is payable on such Eurodollar Loan of the amount then due it under this subsection 2.13(b), in which case such additional interest on such Eurodollar Loan shall be payable to such Bank at the place indicated in such notice. Each such notification shall be accompanied by such information as the Company may reasonably request.

2.14 Capital Adequacy. If any Bank shall have determined that after the date hereof the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Bank or any corporation controlling such Bank with any request or directive after the date hereof regarding capital adequacy (whether or not having the force of law) from any central bank or Governmental Authority, does or shall have the effect of reducing the rate of return on such Bank's or such corporation's capital as a consequence of its obligations hereunder or under any Letter of Credit to a level below that which such Bank or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount which is reasonably deemed by such Bank to be material, then from time to time, promptly after submission by such Bank, through the Agent, to the Company of a written request therefor (such request shall include details reasonably sufficient to establish the basis for such additional amounts payable and shall be submitted to the Company within 30 Working Days after it becomes aware of such fact), the Company shall promptly pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction. The agreements in this subsection 2.14 shall survive the termination of this Agreement and payment of the Loans and the Notes and all other amounts payable hereunder.

2.15 Taxes. (a) All payments made by the Company under this Agreement shall be made free and clear of, and without reduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority excluding, in the case of the Agent and each Bank, net income and franchise taxes imposed on the Agent or such Bank by the jurisdiction under the laws of which the Agent or such Bank is organized or any political subdivision or taxing authority thereof or therein, or by any jurisdiction in which such Bank's Domestic Lending Office or Eurodollar Lending Office, as the case may be, is located or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, deductions, charges or withholdings being hereinafter called "Taxes"). If any Taxes are required to be withheld from any amounts payable to the Agent or any Bank hereunder or under the Notes, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Company, as promptly as possible thereafter, the Company shall send to the Agent for its own account or for the account of such Bank, as the case may be, a certified copy of an original official receipt that is received by the Company showing payment thereof (or, if no official receipt is received by the Company, a statement of the Company indicating payment thereof). If the Company fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Company shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure, except to the extent such failure is attributable to a failure by a Non-U.S. Bank to comply with the form delivery and notice requirements of paragraph (b) below.

(b) Each Bank (or Transferee) that is not a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America (or any jurisdiction thereof), or any estate or trust that is subject to federal income taxation regardless of the source of its income (a "Non-U.S. Bank") shall deliver to the Company and the Agent (or, in the case of a Participant, to the Bank from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Bank claiming complete exemption from, U.S. federal withholding tax on all payments by the Company under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Bank on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non-U.S. Bank shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Bank. Each Non-U.S. Bank shall promptly notify the Company at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Company (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Bank shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Bank is not legally able to deliver, provided, however, that in the event that the failure to be able to deliver such form is not attributable to a change in law, the Company shall be relieved of the obligation to make additional payments under subsection 2.15(a) above.

(c) The agreements in subsection 2.15 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.16 Indemnity. The Company agrees to indemnify each Bank and to hold each Bank harmless from any loss or expense (other than any loss of anticipated margin or profit) which such Bank may sustain or incur as a consequence of (a) default by the Company in payment when due of the principal amount of or interest on any Eurodollar Loans of such Bank, (b) default by the Company in making a borrowing or conversion after the Company has given a notice of borrowing in accordance with subsection 2.1(b) or a notice of continuation or conversion pursuant to subsection 2.7, (c) default by the Company in making any prepayment after the Company has given a notice in accordance with subsection 2.6 or (d) the making of a prepayment of a Eurodollar Loan on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it to maintain its Eurodollar Loans hereunder or from fees payable to terminate the deposits from which such funds were obtained. Any Bank claiming any amount under this subsection 2.16 shall provide calculations, in reasonable detail, of the amount of its loss or expense. This covenant shall survive termination of this Agreement and payment of the outstanding Loans and all other amounts payable hereunder.

2.17 Application of Proceeds of Loans. Subject to the provisions of the following sentence, the Company may use the proceeds of the Loans for any lawful general corporate purpose, including acquisitions. The Company will not, directly or indirectly, apply any part of the proceeds of any such Loan for the purpose of “purchasing” or “carrying” any Margin Stock within the respective meanings of each of the quoted terms under Regulation U, or to refund any indebtedness incurred for such purpose, provided that the Company may use the proceeds of Loans for such purposes, if such usage does not violate Regulation U as now and from time to time hereafter in effect.

2.18 Notice of Certain Circumstances: Assignment of Commitments Under Certain Circumstances. (a) Any Bank claiming any additional amounts payable pursuant to subsections 2.13, 2.14 or 2.15 or exercising its rights under subsection 2.12, shall, in accordance with the respective provisions thereof, provide notice to the Company and the Agent. Such notice to the Company and the Agent shall include details reasonably sufficient to establish the basis for such additional amounts payable or the rights to be exercised by the Bank.

(b) Any Bank claiming any additional amounts payable pursuant to subsections 2.13, 2.14 or 2.15 or exercising its rights under subsection 2.12, shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Company or to change the jurisdiction of its applicable lending office if the making of such filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the reasonable determination of such Bank, be otherwise disadvantageous in any material respect to such Bank.

(c) In the event that the Company shall be required to make any additional payments to any Bank pursuant to subsections 2.13, 2.14 or 2.15 or any Bank shall exercise its

rights under subsection 2.12, the Company shall have the right at its own expense, upon notice to such Bank and the Agent, to require such Bank to transfer and to assign without recourse (in accordance with and subject to the terms of subsection 10.6) all its interest, rights and obligations under this Agreement to another financial institution (including any Bank) acceptable to the Agent (which approval shall not be unreasonably withheld) which shall assume such obligations; provided that (i) no such assignment shall conflict with any Requirement of Law and (ii) such assuming financial institution shall pay to such Bank in immediately available funds on the date of such assignment the outstanding principal amount of such Bank's Loans together with accrued interest thereon and all other amounts accrued for its account or owed to it hereunder, including, but not limited to additional amounts payable under subsections 2.4, 2.12, 2.13, 2.14, 2.15 and 2.16.

2.19 Regulation U. (a) If at any time the Company shall use the proceeds of any Loans for the purpose of "purchasing" or "carrying" any Margin Stock within the respective meanings of each of the quoted terms under Regulation U, or to refund any indebtedness incurred for such purpose, and, after giving effect to such purchase or refund, more than 25% of the value (determined in accordance with Regulation U) of the assets subject to the restrictions of Section 7 would be represented by Margin Stock, the Company shall give notice thereof to the Agent and the Banks, and thereafter the Loans made by each Bank shall at all times be treated for purposes of Regulation U as two separate extensions of credit (the "A Credit" and the "B Credit" of such Bank and, collectively, the "A Credits" and the "B Credits"), as follows:

(i) the aggregate amount of the A Credit of such Bank shall be an amount equal to such Bank's pro rata share (based on the amount of its Commitment Percentage) of the maximum loan value (as determined in accordance with Regulation U), of all Margin Stock Collateral; and

(ii) the aggregate amount of the B Credit of such Bank shall be an amount equal to such Bank's pro rata share (based on the amount of its Commitment Percentage) of all Loans outstanding hereunder minus such Bank's A Credit.

In the event that any Margin Stock Collateral is acquired or sold, the amount of the A Credit of such Bank shall be adjusted (if necessary), to the extent necessary by prepayment, to an amount equal to such Bank's pro rata share (based on the amount of its Commitment Percentage) of the maximum loan value (determined in accordance with Regulation U) as of the date of such acquisition or sale) of the Margin Stock Collateral immediately after giving effect to such acquisition or sale. Nothing contained in this subsection 2.19 shall be deemed to permit any sale of Margin Stock Collateral in violation of any other provisions of this Agreement.

(b) Each Bank will maintain its records to identify the A Credit of such Bank and the B Credit of such Bank, and, solely for the purposes of complying with Regulation U, the A and B Credits shall be treated as separate extensions of credit. Each Bank hereby represents and warrants that the loan value of the Other Collateral is sufficient for such Bank to lend its pro rata share of the B Credit.

(c) The benefits of the indirect security in Margin Stock Collateral created by any provisions of this Agreement shall be allocated first to the benefit and security of the payment of the principal of and interest on the A Credits of the Banks and of all other amounts payable by the Company under this Agreement in connection with the A Credits (collectively,

the “A Credit Amounts”) and second, only after the payment in full of the A Credit Amounts, to the benefit and security of the payment of the principal of and interest on the B Credits of the Banks and of all other amounts payable by the Company under this Agreement in connection with the B Credits (collectively, the “B Credit Amounts”). The benefits of the indirect security in Other Collateral created by any provisions of this Agreement, shall be allocated first to the benefit and security of the payment of the B Credit Amounts and second, only after the payment in full of the B Credit Amounts, to the benefit and security of the payment of the A Credit Amounts.

(d) The Company shall furnish to each Bank at the time of each acquisition and sale of Margin Stock Collateral such information and documents as the Agent or such Bank may require to determine the A and B Credits, and at any time and from time to time, such other information and documents as the Agent or such Bank may reasonably require to determine compliance with Regulation U.

(e) Each Bank shall be responsible for its own compliance with and administration of the provisions of this subsection 2.19 and Regulation U, and the Agent shall have no responsibility for any determinations or allocations made or to be made by any Bank as required by such provisions.

SECTION 3. LETTERS OF CREDIT

3.1 L/C Sublimit. (a) Prior to the Closing Date, the Existing Issuing Bank has issued the Existing Letters of Credit that, from and after the Closing Date, shall constitute Letters of Credit hereunder. Subject to the terms and conditions hereof, the Issuing Bank, in reliance on the agreements of the other Banks set forth in subsection 3.4(a), agrees to issue letters of credit (the letters of credit issued on and after the Closing Date pursuant to this Section 3, together with the Existing Letters of Credit, collectively, the “Letters of Credit”) for the account of the Company on any Business Day during the Commitment Period in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Sublimit or (ii) the Available Commitment would be less than zero. Each Letter of Credit shall (i) be denominated in Dollars, (ii) be either (A) a standby letter of credit issued to support obligations of the Company or its Subsidiaries, contingent or otherwise (a “Standby Letter of Credit”) or (B) a commercial letter of credit issued in respect of the purchase of goods or services by the Company or its Subsidiaries in the ordinary course of business (a “Commercial Letter of Credit”) and (iii) expire no later than the Termination Date.

(b) Each Letter of Credit shall be subject to the Uniform Customs and, to the extent not inconsistent therewith, the laws of the State of New York.

(c) The Issuing Bank shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

(d) No Standby Letter of Credit shall have an expiry date more than 365 days after its date of issuance, provided that any such Standby Letter of Credit may provide that it is automatically renewed on each anniversary of issuance thereof for additional one-year periods unless the beneficiary is otherwise notified by the issuer of such Standby Letter of Credit.

(e) No Commercial Letter of Credit shall have an expiry date more than 180 days after its date of issuance.

3.2 Procedure for Issuance of Letters of Credit. The Company may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, completed to the satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may request. Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and the Company. The Issuing Bank shall furnish a copy of such Letter of Credit to the Company promptly following the issuance thereof.

3.3 Fees, Commissions and Other Charges. (a) The Company will pay to the Agent, for the account of the L/C Participants to be shared by them ratably in accordance with their respective Commitment Percentages, a fee on the undrawn and unexpired amount of all outstanding Letters of Credit at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar Loans; such fee shall be payable quarterly in arrears on each Fee Payment Date after the issuance date of the applicable Letter of Credit. In addition, the Company shall pay to the Issuing Bank for its own account a fronting fee of 0.125% per annum on the undrawn and unexpired amount of each Letter of Credit, payable quarterly in arrears on each Fee Payment Date after the issuance date of the applicable Letter of Credit.

(b) In addition to the foregoing fees, the Company shall pay or reimburse the Issuing Bank for such normal and customary costs and expenses as are incurred or charged by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

(c) The Agent shall, promptly following its receipt thereof, distribute to the Issuing Bank and the L/C Participants all fees received by the Agent for their respective accounts pursuant to this subsection.

(d) Fees in subsection (a) above shall be computed on the basis of a 360-day year for the actual days elapsed.

3.4 L/C Participation. (a) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Commitment Percentage in the Issuing Bank's obligations and rights under each Letter of Credit issued hereunder and the amount of each draft paid by the Issuing Bank thereunder. Each L/C

Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid under any Letter of Credit for which the Issuing Bank is not reimbursed in full by the Company in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Bank upon demand at the Issuing Bank's address for notices specified herein an amount equal to such L/C Participant's Commitment Percentage of the amount of such draft, or any part thereof, which is not so reimbursed.

(b) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to subsection 3.4(a) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit is paid to the Issuing Bank within three Business Days after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal funds rate, as quoted by the Issuing Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to subsection 3.4(a) is not in fact made available to the Issuing Bank by such L/C Participant within three Business Days after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Revolving Credit Loans that are Alternate Base Rate Loans hereunder. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with subsection 3.4(a), the Issuing Bank receives any payment related to such Letter of Credit (whether directly from the Company or otherwise, including proceeds of collateral, if any, applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it.

3.5 Reimbursement Obligation of the Company. The Company agrees to reimburse the Issuing Bank on each date on which the Issuing Bank notifies the Company of the date and amount of a draft presented under any Letter of Credit and paid by the Issuing Bank for the amount of (a) such draft so paid and (b) any taxes, fees, charges or other costs or expenses incurred by the Issuing Bank in connection with such payment. Each such payment shall be made to the Issuing Bank at its address for notices specified herein in lawful money of the United States of America and in immediately available funds. Interest shall be payable on any and all amounts remaining unpaid by the Company under this subsection from the date such amounts become payable (whether at stated maturity, by acceleration or otherwise) until payment in full at a rate per annum equal to the Alternate Base Rate plus 2%.

3.6 Obligations Absolute. The Company's obligations under this Section 3 shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Company may have or have had against the Issuing Bank or any beneficiary of a Letter of Credit. The Company also agrees with the Issuing

Bank that the Issuing Bank shall not be responsible for, and the Company's Reimbursement Obligations under subsection 3.5 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Company and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Company against any beneficiary of such Letter of Credit or any such transferee. The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Bank's gross negligence or willful misconduct. The Company agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence of willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Company and shall not result in any liability of the Issuing Bank to the Company.

3.7 Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Bank shall promptly notify the Company of the date and amount thereof. The responsibility of the Issuing Bank to the Company in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are in conformity with such Letter of Credit.

3.8 Application. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 3, the provisions of this Section 3 shall apply.

SECTION 4. REPRESENTATIONS AND WARRANTIES

The Company hereby represents and warrants that:

4.1 Corporate Existence; Compliance with Law. Each of the Company and its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the corporate power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification and (d) is in compliance with all Requirements of Law, including, without limitation, HMO Regulations and Insurance Regulations, except to the extent that the failure to be so qualified or to comply therewith would not have a Material Adverse Effect.

4.2 No Legal Obstacle to Agreement; Enforceability. Neither the execution and delivery of any Loan Document, nor the making by the Company of any borrowings hereunder, nor the consummation of any transaction herein or therein referred to or contemplated hereby or thereby nor the fulfillment of the terms hereof or thereof or of any agreement or

instrument referred to in this Agreement, has constituted or resulted in or will constitute or result in a breach of any Requirement of Law, including without limitation, HMO Regulations and Insurance Regulations, or any Contractual Obligation of the Company or any of its Subsidiaries, or result in the creation under any agreement or instrument of any security interest, lien, charge or encumbrance upon any of the assets of the Company or any of its Subsidiaries. No approval, authorization or other action by any Governmental Authority, including, without limitation, HMO Regulators and Insurance Regulators, or any other Person is required to be obtained by the Company or any of its Subsidiaries in connection with the execution, delivery and performance of this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby, or the making of any borrowing by the Company hereunder. This Agreement has been, and each other Loan Document will be, duly executed and delivered on behalf of the Company. This Agreement constitutes, and each other Loan Document when executed and delivered will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

4.3 Litigation. Except as disclosed in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2003 and the Company's Quarterly Reports on Form 10-Q for its fiscal quarters ended March 31, 2004 and June 30, 2004 filed with the Securities and Exchange Commission and previously distributed to the Banks or filed with the Securities and Exchange Commission under EDGAR, as of the date hereof, there is no litigation, at law or in equity, or any proceeding before any federal, state, provincial or municipal board or other governmental or administrative agency, including without limitation, HMO Regulators and Insurance Regulators, pending or to the knowledge of the Company threatened which, after giving effect to any applicable insurance, could reasonably be expected to have a Material Adverse Effect or which seeks to enjoin the consummation of any of the transactions contemplated by this Agreement or any other Loan Document, and no judgment, decree, or order of any federal, state, provincial or municipal court, board or other governmental or administrative agency, including without limitation, HMO Regulators and Insurance Regulators, has been issued against the Company or any Subsidiary which has, or may involve, a material risk of a Material Adverse Effect.

4.4 Disclosure. Neither this Agreement nor any agreement, document, certificate or statement furnished to the Banks by the Company in connection herewith (including, without limitation, the information relating to the Company and its Subsidiaries included in the Confidential Information Memorandum dated September 2004 delivered in connection with the syndication of the credit facilities hereunder) contains as of the date hereof any untrue statement of material fact or, taken as a whole together with all other information furnished to the Banks by the Company, omits to state a material fact necessary in order to make the statements contained herein or therein not misleading. All pro forma financial statements made available to the Banks have been prepared in good faith based upon reasonable assumptions. There is no fact known to the Company which materially adversely affects or in the future could reasonably be expected to materially adversely affect the business, operations, affairs or condition of the Company and its Subsidiaries on a consolidated basis, except to the extent that they may be affected by future general economic conditions.

4.5 Defaults. Neither the Company nor any of its Subsidiaries is in default under or with respect to any Requirement of Law or Contractual Obligation in any respect which has had, or could reasonably be expected to have, a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

4.6 Financial Condition. The Company has furnished to the Agent and each Bank, or filed with the Securities and Exchange Commission under EDGAR, copies of the following:

- (a) The Annual Report of the Company on Form 10-K for the fiscal year ended December 31, 2003; and
- (b) The Quarterly Reports of the Company on Form 10-Q for the fiscal quarters ended March 31, 2004 and June 30, 2004.

The financial statements included therein, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as disclosed therein). As of the date of such financial statements, neither the Company nor any of its Subsidiaries had any known contingent liabilities of any significant amount which in accordance with GAAP are required to be referred to in said financial statements or in the notes thereto which could reasonably be expected to have a Material Adverse Effect. During the period from December 31, 2003 to and including the date hereof, there has been no sale, transfer or other disposition by the Company or any of its consolidated Subsidiaries of any asset reflected on the balance sheet referred to above that would have been a material part of its business or property and no purchase or other acquisition of any business or property (including any capital stock of any other Person) material in relation to the consolidated financial condition of the Company and its consolidated Subsidiaries at December 31, 2003 other than as disclosed in Schedule VI.

4.7 Changes in Condition. Since December 31, 2003, there has been no development or event nor any prospective development or event, which has had, or could reasonably be expected to have, a Material Adverse Effect.

4.8 Assets. The Company and each Subsidiary have good and marketable title to all material assets carried on their books and reflected in the financial statements referred to in subsection 4.6 or furnished pursuant to subsection 6.4, except for assets held on Financing Leases or purchased subject to security devices providing for retention of title in the vendor, and except for assets disposed of as permitted by this Agreement.

4.9 Tax Returns. The Company and each of its Subsidiaries have filed all tax returns which are required to be filed and have paid, or made adequate provision for the payment of, all taxes which have or may become due pursuant to said returns or to assessments received. All federal tax returns of the Company and its Subsidiaries through their fiscal years ended in 1999 have been audited by the Internal Revenue Service or are not subject to such audit by virtue of the expiration of the applicable period of limitations, and the results of such audits are fully reflected in the balance sheets referred to in subsection 4.6. The Company knows of no material additional assessments since said date for which adequate reserves have not been established.

4.10 Contracts, etc. Attached hereto as Schedule III is a statement of outstanding Indebtedness of the Company and its Subsidiaries for borrowed money in excess of \$2,000,000 as of the date set forth therein, and a complete and correct list of all agreements, contracts, indentures, instruments, documents and amendments thereto to which the Company or any Subsidiary is a party or by which it is bound pursuant to which any such Indebtedness of the Company and its Subsidiaries is outstanding on the date hereof. Said Schedule III also includes a complete and correct list of all such Indebtedness of the Company and its Subsidiaries outstanding on the date indicated in respect of Guarantee Obligations in excess of \$2,000,000 and letters of credit in excess of \$2,000,000, and there have been no increases in such Indebtedness since said date other than as permitted by this Agreement.

4.11 Subsidiaries. As of the date hereof, the Company has only the Subsidiaries set forth in Schedule IV, all of the outstanding capital stock of each of which is duly authorized, validly issued, fully paid and nonassessable and owned as set forth in said Schedule IV. Schedule IV indicates all Subsidiaries of the Company which are not Wholly-Owned Subsidiaries and the percentage ownership of the Company and its Subsidiaries in each such Subsidiary. The capital stock and securities owned by the Company and its Subsidiaries in each of the Company's Subsidiaries are owned free and clear of any mortgage, pledge, lien, encumbrance, charge or restriction on the transfer thereof other than restrictions on transfer imposed by applicable securities laws and restrictions, liens and encumbrances outstanding on the date hereof and listed in said Schedule IV.

4.12 Burdensome Obligations. Neither the Company nor any Subsidiary is a party to or bound by any agreement, deed, lease or other instrument, or subject to any charter, by-law or other corporate restriction which, in the reasonable opinion of the management thereof, is so unusual or burdensome as to in the foreseeable future have a Material Adverse Effect. The Company does not presently anticipate that future expenditures of the Company and its Subsidiaries needed to meet the provisions of any federal or state statutes, orders, rules or regulations will be so burdensome as to have a Material Adverse Effect.

4.13 Pension Plans. Each Plan maintained by the Company, any Subsidiary or any Control Group Person or to which any of them makes or will make contributions is in compliance with the applicable provisions of ERISA and the Code, except where failure to comply could not reasonably be expected to have a Material Adverse Effect. Neither the Company, any Subsidiary, nor any Control Group Person has since August 31, 1987 maintained, contributed to or participated in any Multiemployer Plan, with respect to which a complete withdrawal would result in any withdrawal liability which could reasonably be expected to have a Material Adverse Effect. The Company and its Subsidiaries have met all of the funding standards applicable to all Plans that are not Multiemployer Plans, except where failure to comply could not reasonably be expected to have a Material Adverse Effect, and there exists no event or condition which would permit the institution of proceedings to terminate any Plan that is not a Multiemployer Plan which could reasonably be expected to have a Material Adverse Effect. The current value of the benefits guaranteed under Title IV of ERISA of each Plan that is not a Multiemployer Plan does not exceed the current value of such Plan's assets allocable to such benefits by an amount greater than \$50,000,000 at any one time.

4.14 Environmental and Public and Employee Health and Safety Matters. The Company and each Subsidiary has complied with all applicable Federal, state, and other laws, rules and regulations relating to environmental pollution or to environmental regulation or

control or to public or employee health or safety, except to the extent that the failure to so comply would not be reasonably likely to result in a Material Adverse Effect. The Company's and the Subsidiaries' facilities do not contain, and have not previously contained, any hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants regulated under the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or public or employee health and safety, in violation of any such law, or any rules or regulations promulgated pursuant thereto, except for violations that would not be reasonably likely to result in a Material Adverse Effect. The Company is aware of no events, conditions or circumstances involving environmental pollution or contamination or public or employee health or safety, in each case applicable to it or its Subsidiaries, that would be reasonably likely to result in a Material Adverse Effect.

4.15 Federal Regulations. No part of the proceeds of any Loans will be used in any transaction or for any purpose which violates the provisions of Regulations T, U or X as now and from time to time hereafter in effect. If requested by any Bank or the Agent, the Company will furnish to the Agent and each Bank a statement to the foregoing effect in conformity with the requirements of Form FR U-1 or Form FR G-3 referred to in Regulation U.

4.16 Investment Company Act; Other Regulations. The Company is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. Except as set forth in Schedule VII, the Company is not subject to regulation under any Federal or State statute or regulation (other than Regulation X) which limits its ability to incur Indebtedness.

4.17 Solvency. Each of the Company, and the Company and its Subsidiaries taken as a whole, is Solvent.

4.18 Casualties. Neither the businesses nor the properties of the Company or any of its Subsidiaries are affected by any fire, explosion, accident, strike, lockout or other material labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that could reasonably be expected to have a Material Adverse Effect.

4.19 Business Activity. Except as set forth on Schedule VIII, neither the Company nor any of its Subsidiaries is engaged in any line of business that is not related to the healthcare industry other than the sale of life insurance in connection with the sale of medical insurance or other healthcare services, sale of long term care insurance, or any business or activity which is immaterial to the Company and its Subsidiaries on a consolidated basis.

4.20 Purpose of Loans. The proceeds of the Loans shall be used to repay any amounts outstanding under the Existing Credit Agreements and to finance any other lawful general corporate purpose, including commercial paper backup and acquisitions, provided that no part of the proceeds of any Loans will be used in any transaction or for any purpose which violates the provisions of Regulation U as now and from time to time hereafter in effect.

SECTION 5. CONDITIONS

5.1 Conditions to the Closing Date. The obligations of each Bank to make the Loans contemplated by subsections 2.1 and 2.2 and of the Issuing Bank to issue Letters of Credit contemplated by subsection 3.1 shall be subject to the compliance by the Company with its agreements herein contained and to the satisfaction, on or before October 1, 2004, of the following conditions:

(a) Loan Documents. The Agent shall have received this Agreement, executed and delivered by a duly authorized officer of the Company, with a counterpart for each Bank.

(b) Legal Opinions. The Agent shall have received, with a copy for each Bank, opinions rendered by (i) the assistant general counsel of the Company, substantially in the form of Exhibit I-1, and (ii) Fried, Frank, Harris, Shriver & Jacobson LLP, counsel to the Company, substantially in the form of Exhibit I-2.

(c) Closing Certificate. The Agent shall have received, with a copy for each Bank, a Closing Certificate, substantially in the form of Exhibit H and dated the Closing Date, executed by a Responsible Officer.

(d) Legality, etc. The consummation of the transactions contemplated hereby shall not contravene, violate or conflict with, any Requirement of Law including, without limitation, HMO Regulations and Insurance Regulations, and all necessary consents, approvals and authorizations of any Governmental Authority or any Person to or of such consummation shall have been obtained and shall be in full force and effect.

(e) Fees. The Agent shall have received the fees to be received on the Closing Date referred to in subsection 2.4(c).

(f) Corporate Proceedings. The Agent shall have received, with a copy for each Bank, a copy of the resolutions, in form and substance reasonably satisfactory to the Agent, of the Board of Directors of the Company authorizing (i) the execution, delivery and performance of this Agreement, the Notes and the other Loan Documents, and (ii) the borrowings contemplated hereunder, certified by the Secretary or an Assistant Secretary of the Company as of the Closing Date, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance reasonably satisfactory to the Agent.

(g) Corporate Documents. The Agent shall have received, with a copy for each Bank, true and complete copies of the certificate of incorporation and by-laws of the Company, certified as of the Closing Date as complete and correct copies thereof by the Secretary or an Assistant Secretary of the Company.

(h) No Material Litigation. Except as previously disclosed to the Agent and the Banks pursuant to subsection 4.3, no litigation, inquiry, investigation, injunction or restraining order (including any proposed statute, rule or regulation) shall be pending, entered or threatened which, in the reasonable judgment of the Required Banks, could reasonably be expected to have a Material Adverse Effect.

(i) Incumbency Certificate. The Agent shall have received, with a copy for each Bank, a certificate of the Secretary or an Assistant Secretary of the Company, dated the

Closing Date, as to the incumbency and signature of the officers of the Company executing each Loan Document and any certificate or other document to be delivered by it pursuant hereto and thereto, together with evidence of the incumbency of such Secretary or Assistant Secretary.

(j) Good Standing Certificates. The Agent shall have received, with a copy for each Bank, copies of certificates dated as of a recent date from the Secretary of State or other appropriate authority of such jurisdiction, evidencing the good standing of the Company in its jurisdiction of incorporation and in Kentucky.

(k) No Change. There shall not have occurred any change or event, and a Bank shall not have become aware of any previously undisclosed information regarding the Company and its Subsidiaries, which in each case, in the reasonable judgment of the Required Banks, could reasonably be expected to have a Material Adverse Effect.

(l) Repayment of Outstanding Loans. On the Closing Date, all Loans and other amounts outstanding under the Existing Credit Agreements, if any, shall be repaid contemporaneously with the making of Loans hereunder and all commitments to extend credit thereunder shall be terminated.

5.2 Conditions to Each Loan. The agreement of each Bank to make any extension of credit requested to be made by it on any date is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Company and its Subsidiaries in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Loans requested to be made on such date.

(c) Additional Matters. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be reasonably satisfactory in form and substance to the Agent, and the Agent shall have received such other documents, instruments, legal opinions or other items of information reasonably requested by it, including, without limitation, copies of any debt instruments, security agreements or other material contracts to which the Company may be a party in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

(d) Regulations. In the case of any Loan the proceeds of which will be used, in whole or in part, to finance an acquisition, such acquisition shall be in full compliance with all applicable requirements of law, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System.

(e) Governmental, Third Party Approvals. In the case of any Loan the proceeds of which will be used, in whole or in part, to finance an acquisition, all necessary governmental and regulatory approvals, and all third party approvals the failure to obtain which would result in the acceleration of indebtedness unless such indebtedness is paid when due, in connection with such acquisition or in connection with this Agreement shall have been obtained

and remain in effect, and all applicable waiting periods with respect to antitrust matters shall have expired without any action being taken by any competent authority which restrains such acquisition.

(f) No Restraints. In the case of any Loan the proceeds of which will be used, in whole or in part, to finance an acquisition, there shall exist no judgment, order, injunction or other restraint which would prevent the consummation of such acquisition.

(g) Form FR U-1; Form FR G-3. In the case of any Loan the proceeds of which will be used, in whole or in part, to purchase or carry Margin Stock, the Company shall have executed and delivered to the Agent and each Bank a statement on Form FR U-1 referred to in Regulation U or, if applicable, Form FR G-3 referred to in Regulation U, showing compliance with Regulation U after giving effect to such Loan.

(h) Legal Opinion. In the case of any Loan the proceeds of which will be used, in whole or in part, to purchase or carry Margin Stock, the Agent shall have received, with a copy for each Bank, a written legal opinion of Fried, Frank, Harris, Shriver & Jacobson LLP, counsel to the Company, or such other counsel reasonably acceptable to the Banks, to the effect that such Loan and the Company's use of the proceeds thereof does not violate Regulation U or Regulation X.

Each borrowing and each request for issuance of a Letter of Credit by the Company hereunder shall constitute a representation and warranty by the Company as of the date of such extension of credit that the conditions contained in this subsection 5.2 have been satisfied.

SECTION 6. AFFIRMATIVE COVENANTS

The Company hereby agrees that, from and after the Closing Date and so long as the Commitments remain in effect, any Loan or Letter of Credit remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Company shall and (except in the case of delivery of financial information, reports and notices) shall cause each of its Subsidiaries to:

6.1 Taxes, Indebtedness, etc. Duly pay, discharge or otherwise satisfy, or cause to be paid, discharged or otherwise satisfied, before the same shall become in arrears, all taxes, assessments, levies and other governmental charges imposed upon such corporation and its properties, sales and activities, or any part thereof, or upon the income or profits therefrom; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Company or the Subsidiary in question shall have set aside on its books appropriate reserves in conformity with GAAP with respect thereto. Each of the Company and its Subsidiaries will promptly pay when due, or in conformance with customary trade terms, all other Indebtedness, liabilities and other obligations of whatever nature incident to its operations; provided, however, that any such Indebtedness, liability or obligation need not be paid if the validity or amount thereof shall currently be contested in good faith and if the Company or the Subsidiary in question shall have set aside on its books appropriate reserves in conformity with GAAP with respect thereto.

6.2 Maintenance of Properties: Maintenance of Existence. Keep its material properties in good repair, working order and condition and will comply at all times with the provisions of all material leases and other material agreements to which it is a party so as to prevent any material loss or forfeiture thereof or thereunder unless compliance therewith is being contested in good faith by appropriate proceedings and if the Company or the Subsidiary in question shall have set aside on its books appropriate reserves in conformity with GAAP with respect thereto; and in the case of the Company or any Subsidiary of the Company while such Person remains a Subsidiary, will do all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and all rights, privileges and franchises necessary to continue such businesses, except where failure to do so would not reasonably be expected to have a Material Adverse Effect.

6.3 Insurance. Maintain or cause to be maintained, with financially sound and reputable insurers including any Subsidiary which is engaged in the business of providing insurance protection, insurance (including, without limitation, public liability insurance, business interruption insurance, reinsurance for medical claims and professional liability insurance against claims for malpractice) with respect to its material properties and business and the properties and business of its Subsidiaries in at least such amounts and against at least such risks as are customarily carried under similar circumstances by other corporations engaged in the same or a similar business; and furnish to each Bank, upon written request, full information as to the insurance carried. Such insurance may be subject to co-insurance, deductibility or similar clauses which, in effect, result in self-insurance of certain losses, and the Company may self-insure against such loss or damage, provided that adequate insurance reserves are maintained in connection with such self-insurance.

6.4 Financial Statements. The Company will and will cause each of its Subsidiaries to maintain a standard modern system of accounting in which full, true and correct entries will be made of all dealings or transactions in relation to its business and affairs in accordance with GAAP consistently applied, and will furnish (or make available via the IntraLinks website or the Securities and Exchange Commission EDGAR website) the following to the Agent and each Bank (if not provided via IntraLinks, in duplicate if so requested):

(a) Annual Statements. As soon as available, and in any event within 100 days after the end of each fiscal year, the consolidated balance sheet as at the end of each fiscal year and consolidated statements of profit and loss and of retained earnings for such fiscal year of the Company and its Subsidiaries, together with comparative consolidated figures for the next preceding fiscal year, accompanied by reports or certificates of PricewaterhouseCoopers LLP, or, if they cease to be the auditors of the Company, of other independent public accountants of national standing and reputation, to the effect that such balance sheet and statements were prepared in accordance with GAAP consistently applied and fairly present the financial position of the Company and its Subsidiaries as at the end of such fiscal year and the results of their operations and changes in financial position for the year then ended and the statement of such accountants and of the treasurer of the Company that such said accountants and treasurer have caused the provisions of this Agreement to be reviewed and that nothing has come to their attention to lead them to believe that any Default exists hereunder or, if such is not the case, specifying such Default or possible Default and the nature thereof. In addition, such financial statements shall be accompanied by a certificate of the treasurer of the Company containing computations showing compliance with subsections 7.1, 7.2, 7.3 and 7.5.

(b) Quarterly Statements. As soon as available, and in any event within 55 days after the close of each of the first three fiscal quarters of the Company and its Subsidiaries in each year, consolidated balance sheets as at the end of such fiscal quarter and consolidated profit and loss and retained earnings statements for the portion of the fiscal year then ended, of the Company and its Subsidiaries, together with computations showing compliance with subsections 7.1, 7.2, 7.3 and 7.5, accompanied by a certificate of the treasurer of the Company that such statements and computations have been properly prepared in accordance with GAAP, consistently applied, and fairly present the financial position of the Company and its Subsidiaries as at the end of such fiscal quarter and the results of their operations and changes in financial position for such quarter and for the portion of the fiscal year then ended, subject to normal audit and year-end adjustments, and to the further effect that he has caused the provisions of this Agreement and all other agreements to which the Company or any of its Subsidiaries is a party and which relate to Indebtedness to be reviewed, and has no knowledge that any Default has occurred under this Agreement or under any such other agreement, or, if said treasurer has such knowledge, specifying such Default and the nature thereof.

(c) ERISA Reports. The Company will furnish the Agent with copies of any request for waiver of the funding standards or extension of the amortization periods required by Sections 303 and 304 of ERISA or Section 412 of the Code promptly after any such request is submitted by the Company to the Department of Labor or the Internal Revenue Service, as the case may be. Promptly after a Reportable Event occurs, or the Company or any of its Subsidiaries receives notice that the PBGC or any Control Group Person has instituted or intends to institute proceedings to terminate any Plan, or prior to the Plan administrator's terminating such Plan pursuant to Section 4041 of ERISA, the Company will notify the Agent and will furnish to the Agent a copy of any notice of such Reportable Event which is required to be filed with the PBGC, or any notice delivered by the PBGC evidencing its institution of such proceedings or its intent to institute such proceedings, or any notice to the PBGC that a Plan is to be terminated, as the case may be. The Company will promptly notify each Bank upon learning of the occurrence of any of the following events with respect to any Plan which is a Multiemployer Plan: a partial or complete withdrawal from any Plan which may result in the incurrence by the Company or any of its Subsidiaries of withdrawal liability which could reasonably be expected to have a Material Adverse Effect, or of the termination, insolvency or reorganization status of any Plan which could reasonably be expected to have a Material Adverse Effect. In the event of such a withdrawal, upon the request of the Agent or any Bank, the Company will promptly provide information with respect to the scope and extent of such liability, to the best of the Company's knowledge.

6.5 Certificates; Other Information. Furnish to the Agent and each Bank (or make available via the IntraLinks website or, to the extent available, the Securities and Exchange Commission website):

(a) within five Business Days after the same are sent, copies of all financial statements and reports which the Company sends to its stockholders, and within five Business Days after the same are filed, copies of all financial statements and reports which the Company may make to, or file with, the Securities and Exchange Commission;

(b) not later than thirty days prior to the end of each fiscal year of the Company, a schedule of the Company's insurance coverage and such supplemental schedules with respect thereto as the Agent and the Banks may from time to time reasonably request;

(c) within five Business Days after the consummation of a transaction described in subsection 7.4(c) or (d) or subsection 7.5(f) which, in each case, involves a Significant Subsidiary or assets which, if they constituted a separate Subsidiary, would constitute a Significant Subsidiary, a certificate of the treasurer or chief financial officer of the Company demonstrating pro forma compliance with the financial covenants in this Agreement after giving effect to such transaction; and

(d) promptly, such additional financial and other information as any Bank may from time to time reasonably request.

6.6 Compliance with ERISA. Each of the Company and its Subsidiaries will meet, and will cause all Control Group Persons to meet, all minimum funding requirements applicable to any Plan imposed by ERISA or the Code (without giving effect to any waivers of such requirements or extensions of the related amortization periods which may be granted), and will at all times comply, and will cause all Control Group Persons to comply, with the provisions of ERISA and the Code which are applicable to the Plans, in each case, except where failure to comply could not reasonably be expected to have a Material Adverse Effect. At no time shall the aggregate actual and contingent liabilities of the Company under Sections 4062, 4063, 4064 and other provisions of ERISA (calculated as if the 30% of collective net worth amount referred to in Section 4062(b)(1)(A)(i)(II) of ERISA exceeded the actual total amount of unfunded guaranteed benefits referred to in Section 4062(B)(1)(A)(i)(I) of ERISA) with respect to all Plans (and all other pension plans to which the Company, any Subsidiary, or any Control Group Person made contributions prior to such time) be reasonably expected to have a Material Adverse Effect.

6.7 Compliance with Laws. Comply with all Contractual Obligations and Requirements of Law (including, without limitation, the HMO Regulations, Insurance Regulations, Regulation X and laws relating to the protection of the environment), except where the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.8 Inspection of Property; Books and Records; Discussions. Keep proper books of records and account in which full, true and correct entries in conformity with GAAP, all Requirements of Law, including but not limited to, HMO Regulations and Insurance Regulations, and the terms hereof shall be made of all dealings and transactions in relation to its business and activities; and permit, upon reasonable notice, representatives of any Bank to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of the Company and its Subsidiaries with officers and employees of the Company and its Subsidiaries and with its independent certified public accountants.

6.9 Notices. Promptly give notice to the Agent and each Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Company or any of its Subsidiaries or (ii) litigation, investigation or proceeding which exists at any time between the Company or any of its Subsidiaries and any Governmental Authority (including, without limitation, HMO Regulators and Insurance Regulators), which in either case, if not cured or if adversely determined, as the case may be, could reasonably be expected to have a Material Adverse Effect;

(c) the commencement of any litigation or proceeding or a material development or material change in any ongoing litigation or proceeding affecting the Company or any of its Subsidiaries as a result of which commencement, development or change the Company or one of its Subsidiaries could reasonably be expected to incur a liability (as a result of an adverse judgment or ruling, settlement, incurrence of legal fees and expenses or otherwise) of \$10,000,000 or more and not covered by insurance or in which material injunctive or similar relief is sought;

(d) the following events, as soon as possible and in any event within 30 days after the Company knows thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any Plan, or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Company or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan;

(e) a development or event which could reasonably be expected to have a Material Adverse Effect;

(f) the material non-compliance with any Requirement of Law or material Contractual Obligation, including, without limitation, HMO Regulations and Insurance Regulations, that is not currently being contested in good faith by appropriate proceedings;

(g) the revocation of any material license, permit, authorization, certificate or, qualification of the Company or any Subsidiary by any Governmental Authority, including, without limitation, the HMO Regulators and Insurance Regulators; and

(h) any significant change in or material additional restriction placed on the ability of a Significant Subsidiary to continue business as usual, including, without limitation, any such restriction prohibiting the payment to the Company of dividends by any Significant Subsidiary, by any Governmental Authority, including, without limitation, the HMO Regulators and Insurance Regulators.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Company proposes to take with respect thereto.

6.10 Maintenance of Licenses, Etc. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, all licenses, permits, authorizations, certifications and qualifications (including, without limitation, those qualifications with respect to solvency and capitalization) required under the HMO Regulations or the Insurance Regulations in connection with the ownership or operation of HMO's or insurance companies except were the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

6.11 Further Assurances. Execute any and all further documents, and take all further action which the Required Banks or the Agent may reasonably request in order to effectuate the transactions contemplated by the Loan Documents.

SECTION 7. NEGATIVE COVENANTS

The Company hereby agrees that, from and after the Closing Date and so long as the Commitments remain in effect, any Loan or Letter of Credit remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

7.1 Financial Condition Covenants.

(a) Maintenance of Net Worth. Permit Consolidated Net Worth at any time to be less than 75% of its Consolidated Net Worth of the Company and its consolidated subsidiaries as at March 31, 2004 plus 50% of Consolidated Net Income for each full fiscal quarter after March 31, 2004 (without any deduction for any such fiscal quarter in which such Consolidated Net Income is a negative number).

(b) Interest Coverage. Permit the ratio of (i) Consolidated EBIT for any period of four consecutive fiscal quarters of the Company ending with any fiscal quarter to (ii) Consolidated Interest Expense for such period, to be less than 4.00 to 1.00.

(c) Maximum Leverage Ratio. Permit the Leverage Ratio on the last day of any full fiscal quarter of the Company to be more than 3.00 to 1.00.

7.2 Limitation on Subsidiary Indebtedness. The Company shall not permit any of the Subsidiaries of the Company to create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness of any Subsidiary to the Company or any other Subsidiary;

(b) Indebtedness of a corporation which becomes a Subsidiary after the date hereof, provided that (i) such indebtedness existed at the time such corporation became a Subsidiary and was not created in anticipation thereof and (ii) immediately before and after giving effect to the acquisition of such corporation by the Company no Default or Event of Default shall have occurred and be continuing; or

(c) additional Indebtedness of Subsidiaries of the Company not exceeding \$125,000,000 in aggregate principal amount at any one time outstanding.

7.3 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for:

- (a) Liens, if any, securing the obligations of the Company under this Agreement and the Notes;
- (b) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Company or its Subsidiaries, as the case may be, in conformity with GAAP;
- (c) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings;
- (d) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;
- (e) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- (f) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Company or such Subsidiary;
- (g) Liens in existence on the Closing Date listed on Schedule V, securing Indebtedness in existence on the Closing Date, provided that no such Lien is spread to cover any additional property or any material improvements to the property listed on Schedule V after the Closing Date and that the amount of Indebtedness secured thereby is not increased;
- (h) Liens securing Indebtedness of the Company and its Subsidiaries not prohibited hereunder incurred to finance the acquisition of fixed or capital assets, provided that (i) such Liens shall be created substantially simultaneously with the acquisition of such fixed or capital assets, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (iii) the principal amount of Indebtedness secured by any such Lien shall at no time exceed 80% of the original purchase price of such property;
- (i) Liens on the property or assets of a corporation which becomes a Subsidiary after the date hereof, provided that (i) such Liens existed at the time such corporation became a Subsidiary and were not created in anticipation thereof, (ii) any such Lien is not spread to cover any other property or assets after the time such corporation becomes a Subsidiary and (iii) the amount of Indebtedness secured thereby, if any, is not increased;
- (j) Liens on the Headquarters, Riverview Square, the Waterside Garage, the Green Bay Facility, the Clocktower Building and the Waterside Building; or

(k) Liens not otherwise permitted under this subsection 7.3 securing obligations in an aggregate amount not exceeding at any time 10% of Consolidated Net Tangible Assets as at the end of the immediately preceding fiscal quarter of the Company.

7.4 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or make any material change in its method of conducting business, or purchase or otherwise acquire all or substantially all of the Capital Stock, or the property, business or assets, of any other Person (other than any Subsidiary) or any business division thereof except:

(a) any Subsidiary of the Company may be merged or consolidated with or into the Company (provided that the Company shall be the continuing or surviving corporation) and any Subsidiary of the Company may be merged or consolidated with or into any one or more wholly owned Subsidiaries of the Company (provided that the surviving corporation shall be a wholly owned Subsidiary);

(b) the Company may merge into another corporation owned by the Company for the purpose of causing the Company to be incorporated in a different jurisdiction;

(c) the Company or a wholly owned Subsidiary of the Company may merge with another corporation, provided that (i) the Company or such wholly owned Subsidiary (subject to clause (ii)), as the case may be, shall be the continuing or surviving corporation of such merger, (ii) in the case of a wholly owned Subsidiary of the Company which is merged into another corporation which is the continuing or surviving corporation of such merger, the Company shall cause such continuing or surviving corporation to be a wholly owned Subsidiary of the Company and (iii) immediately before and after giving effect to such merger no Default or Event of Default shall have occurred and be continuing; or

(d) the Company and its Subsidiaries may purchase or otherwise acquire all or substantially all of the Capital Stock, or the property, business or assets, of any other Person, or any business division thereof, so long as no Default or Event of Default shall have occurred and be continuing.

7.5 Limitation on Sale of Assets. Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, receivables and leasehold interests), whether now owned or hereafter acquired, except:

(a) obsolete or worn out property disposed of in the ordinary course of business;

(b) the sale or discount without recourse of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof;

(c) the sale or other disposition of the Headquarters, Riverview Square, the Waterside Garage, the Green Bay Facility, the Clocktower Building and the Waterside Building;

(d) the sale or other disposition of securities held for investment purposes in the ordinary course of business;

(e) any wholly owned Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Company or any other wholly owned Subsidiary of the Company (except to a Subsidiary referred to in subsection 7.2(b)); or

(f) the sale or other disposition of any other property so long as no Default or Event of Default shall have occurred and be continuing; provided that the aggregate book value of all assets so sold or disposed of in any period of twelve consecutive calendar months shall not exceed in the aggregate 12% of the Consolidated Assets of the Company and its Subsidiaries as on the first day of such period.

7.6 Limitation on Distributions. The Company shall not make any Distribution except that, so long as no Default exists or would exist after giving effect thereto, the Company may make a Distribution.

7.7 Transactions with Affiliates. Enter into any transaction (unless such transaction or a series of such transactions is immaterial) including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate (other than the Company and its Subsidiaries) unless such transaction is otherwise permitted under this Agreement, is in the ordinary course of the Company's or such Subsidiary's business and is upon fair and reasonable terms no less favorable to the Company or such Subsidiary, as the case may be, than it would obtain in an arm's length transaction.

7.8 Sale and Leaseback. Enter into any arrangement with any Person providing for the leasing by the Company or any Subsidiary of real or personal property which has been or is to be sold or transferred by the Company or such Subsidiary to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of the Company or such Subsidiary, unless such arrangement is upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtained in a comparable arm's length transaction between an informed and willing seller or lessor under no compulsion to sell or lease and an informed and willing buyer or lessee under no compulsion to buy or lease.

SECTION 8. DEFAULTS

8.1 Events of Default. Upon the occurrence of any of the following events.

(a) any default shall be made by the Company in any payment in respect of: (i) interest on any of the Loans or any fee payable hereunder as the same shall become due and such default shall continue for a period of five days; or (ii) any Reimbursement Obligation or principal of the Loans as the same shall become due, whether at maturity, by prepayment, by acceleration or otherwise; or

(b) any default shall be made by either the Company or any Subsidiary of the Company in the performance or observance of any of the provisions of subsections 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.7 and 7.8; or

(c) any default shall be made in the due performance or observance of any other covenant, agreement or provision to be performed or observed by the Company under this Agreement, and such default shall not be rectified or cured within a period of 30 days; or

(d) any representation or warranty made or deemed made by the Company herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall have been untrue in any material respect on or as of the date made and the facts or circumstances to which such representation or warranty relates shall not have been subsequently corrected to make such representation or warranty no longer incorrect in any material respect; or

(e) any default shall be made in the payment of any item of Indebtedness of the Company or any Subsidiary, or under the terms of any agreement relating to any Indebtedness of the Company or any Subsidiary, and such default shall continue without having been duly cured, waived or consented to, beyond the period of grace, if any, therein specified; provided, however, that such default shall not constitute an Event of Default unless the aggregate outstanding principal amount of such item of Indebtedness and all other items of Indebtedness of the Company and its Subsidiaries as to which such defaults exist and have continued without being duly cured, waived or consented to beyond the respective periods of grace, if any, therein specified exceeds \$25,000,000; or

(f) either the Company or any Subsidiary shall be involved in financial difficulties as evidenced:

(i) by its commencement of a voluntary case under Title 11 of the United States Code as from time to time in effect, or by its authorizing, by appropriate proceedings of its board of directors or other governing body, the commencement of such a voluntary case;

(ii) by the filing against it of a petition commencing an involuntary case under said Title 11 which shall not have been dismissed within 60 days after the date on which said petition is filed or by its filing an answer or other pleading within said 60-day period admitting or failing to deny the material allegations of such a petition or seeking, consenting or acquiescing in the relief therein provided;

(iii) by the entry of an order for relief in any involuntary case commenced under said Title 11;

(iv) by its seeking relief as a debtor under any applicable law, other than said Title 11, of any jurisdiction relating to the liquidation or reorganization of debtors or to the modification or alteration of the rights of creditors, or by its consenting to or acquiescing in such relief;

(v) by the entry of an order by a court of competent jurisdiction (i) finding it to be bankrupt or insolvent, (ii) ordering or approving its liquidation, reorganization or any modification or alteration of the rights of its creditors, or (iii) assuming custody of, or appointing a receiver or other custodian for, all or a substantial part of its property;

(vi) by its making an assignment for the benefit of, or entering into a composition with, its creditors, or appointing or consenting to the appointment of a receiver or other custodian for all or a substantial part of its property;

(vii) the Company or any of its Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) a Change in Control of the Company shall occur;

(h) (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Banks, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Company or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Banks is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist, with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect; or

(i) one or more judgments or decrees shall be entered against the Company or any of its Subsidiaries and such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 45 days from the entry thereof that (i) involves in the aggregate a liability (not paid or to the extent not covered by insurance) of \$25,000,000 or more, or (ii) could reasonably be expected to have a Material Adverse Effect; or

(j) (i) any material non-compliance by the Company or any Significant Subsidiary with any term or provision of the HMO Regulations or Insurance Regulations pertaining to fiscal soundness, solvency or financial condition; or (ii) the assertion in writing by an HMO Regulator or Insurance Regulator that it is taking administrative action against the Company or any Significant Subsidiary to revoke or suspend any contract of insurance, license, permit, certification, authorization, accreditation or charter or to enforce the fiscal soundness, solvency or financial provisions or requirements of the HMO Regulations or Insurance Regulations against any of such entities and the Company or such Significant Subsidiary shall have been unable to cause such HMO Regulator or

Insurance Regulator to withdraw such written notice within five Business Days following receipt of such written notice by the Company or such Significant Subsidiary, in each of clauses (i) and (ii), to the extent such event will or is reasonably expected to have a Material Adverse Effect; or

(k) on or after the Closing Date, (i) for any reason any Loan Document ceases to be or is not in full force and effect or (ii) the Company shall assert that any Loan Document has ceased to be or is not in full force and effect;

then, and in any such event, (A) if such event is an Event of Default specified in paragraph (f) above with respect to the Company, automatically the Commitments shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit have presented the documents required thereunder) shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Banks, the Agent may, or upon the request of the Required Banks, the Agent shall, by notice to the Company, declare the Commitments to be terminated forthwith, whereupon the Commitments shall immediately terminate; and (ii) with the consent of the Required Banks, the Agent may, or upon the request of the Required Banks, the Agent shall, by notice of default to the Company, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) (the "Bank Obligations") to be due and payable forthwith, whereupon the same shall immediately become due and payable.

With respect to all Letters of Credit as to which presentment for honor shall not have occurred at the time of an acceleration pursuant to the preceding paragraph, the Company shall at such time deposit in a cash collateral account opened by the Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Company hereunder and under the Notes. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Company hereunder and under the Notes shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Company.

Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived.

8.2 Annulment of Defaults. An Event of Default shall not be deemed to be in existence for any purpose of this Agreement if the Agent, with the consent of or at the direction of the Required Banks, subject to subsection 10.1, shall have waived such event in writing or stated in writing that the same has been cured to its reasonable satisfaction, but no such waiver shall extend to or affect any subsequent Event of Default or impair any rights of the Agent or the Banks upon the occurrence thereof.

8.3 Waivers. The Company hereby waives to the extent permitted by applicable law (a) all presentments, demands for performance, notices of nonperformance (except to the extent required by the provisions hereof), protests, notices of protest and notices of dishonor in connection with any Reimbursement Obligation or any of the Loans, (b) any requirement of diligence or promptness on the part of any Bank in the enforcement of its rights under the provisions of this Agreement, any Letter of Credit or any Note, and (c) any and all notices of every kind and description which may be required to be given by any statute or rule of law.

8.4 Course of Dealing. No course of dealing between the Company and any Bank shall operate as a waiver of any of the Banks' rights under this Agreement or any Note. No delay or omission on the part of any Bank in exercising any right under this Agreement or any Note or with respect to any of the Bank Obligations shall operate as a waiver of such right or any other right hereunder. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. No waiver or consent shall be binding upon any Bank unless it is in writing and signed by the Agent or such of the Banks as may be required by the provisions of this Agreement. The making of a Loan or issuance of a Letter of Credit hereunder during the existence of a Default shall not constitute a waiver thereof.

SECTION 9. THE AGENT

9.1 Appointment. Each Bank hereby irrevocably designates and appoints JPMorgan Chase Bank as the Agent and CAF Loan Agent of such Bank under this Agreement, and each such Bank irrevocably authorizes JPMorgan Chase Bank, as the Agent and CAF Loan Agent for such Bank, to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Agent or CAF Loan Agent, as the case may be, by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, neither the Agent nor the CAF Loan Agent shall have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent or the CAF Loan Agent.

9.2 Delegation of Duties. The Agent or the CAF Loan Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Neither the Agent nor the CAF Loan Agent shall be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

9.3 Exculpatory Provisions. Neither the Agent nor the CAF Loan Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement (except for its or such Person's own gross negligence or willful misconduct), or (b) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Company or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent or the CAF Loan Agent under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this

Agreement or the Notes or for any failure of the Company to perform its obligations hereunder. Neither the Agent nor the CAF Loan Agent shall be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Company.

9.4 Reliance by Agent. The Agent and the CAF Loan Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Company), independent accountants and other experts selected by the Agent or the CAF Loan Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent and the CAF Loan Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as it deems appropriate or it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent and the CAF Loan Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the Notes in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

9.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from a Bank or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall promptly give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks; provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

9.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor the CAF Loan Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent or the CAF Loan Agent hereinafter taken, including any review of the affairs of the Company, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent and the CAF Loan Agent that it has, independently and without reliance upon the Agent or the CAF Loan Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Company and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or the CAF Loan Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement,

and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Company. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent or the CAF Loan Agent hereunder, neither the Agent nor the CAF Loan Agent shall have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Company which may come into the possession of the Agent or the CAF Loan Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

9.7 Indemnification. The Banks agree to indemnify the Agent and the CAF Loan Agent in its capacity as such (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so), ratably according to the respective amounts of their then existing Commitments, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including without limitation at any time following the payment of the Loans) be imposed on, incurred by or asserted against the Agent or the CAF Loan Agent in any way relating to or arising out of this Agreement, or any documents contemplated by or referred to herein or the transactions contemplated hereby or any action taken or omitted by the Agent or the CAF Loan Agent under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's or the CAF Loan Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Loans and all other amounts payable hereunder.

9.8 Agent and CAF Loan Agent in Its Individual Capacity. The Agent and the CAF Loan Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Company as though the Agent or the CAF Loan Agent were not the Agent or the CAF Loan Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it and with respect to any Letter of Credit issued or participated in by it, the Agent and the CAF Loan Agent shall have the same rights and powers under this Agreement as any Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include the Agent or the CAF Loan Agent in its individual capacity.

9.9 Successor Agent and CAF Loan Agent. The Agent or the CAF Loan Agent may resign as Agent or CAF Loan Agent, as the case may be, upon 10 days' notice to the Banks. If the Agent or the CAF Loan Agent shall resign as Agent or CAF Loan Agent, as the case may be, under this Agreement, then the Required Banks shall appoint from among the Banks a successor agent for the Banks which successor agent shall be approved by the Company, whereupon such successor agent shall succeed to the rights, powers and duties of the Agent or CAF Loan Agent, as the case may be, and the term "Agent" or "CAF Loan Agent", as the case may be, shall mean such successor agent effective upon its appointment, and the former Agent's or CAF Loan Agent's rights, powers and duties as Agent or CAF Loan Agent shall be terminated, without any other or further act or deed on the part of such former Agent or CAF Loan Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's or CAF Loan Agent's resignation hereunder as Agent or CAF Loan Agent, the provisions of this subsection 9.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent or CAF Loan Agent under this Agreement.

9.10 Syndication Agents. None of the Syndication Agents shall have any duties or responsibilities hereunder in their capacity as such.

SECTION 10. MISCELLANEOUS

10.1 Amendments and Waivers. Neither this Agreement, any Note, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Banks, the Agent and the Company may, from time to time, enter into written amendments, supplements or modifications hereto for the purpose of adding any provisions to this Agreement or the Notes or changing in any manner the rights of the Banks or of the Company hereunder or thereunder or waiving, on such terms and conditions as the Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (a) extend the maturity (whether as stated, by acceleration or otherwise) of any Loan, or reduce the rate or extend the time of payment of interest thereon, or reduce or extend the payment of any fee payable to the Banks hereunder, or reduce the principal amount of any Loan, or change the amount of any Bank's Commitment, or amend, modify, waive any provision of subsection 2.11(a), (b) or (c), in each case without the consent of each Bank directly affected thereby, or (b) amend, modify or waive any provision of this subsection 10.1 or reduce the percentage specified in the definition of Required Banks or consent to the assignment or transfer by the Company of any of its rights and obligations under this Agreement, in each case without the written consent of all the Banks, or (c) amend, modify or waive any provision of Section 9 without the written consent of the then Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Company, the Banks, the Agent and all future holders of any Loans. In the case of any waiver, the Company, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

10.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three Business Days after being deposited in the mail, postage prepaid, or one Business Day after being deposited with an overnight courier service, or, in the case of telecopy notice, when sent, confirmation of receipt received, addressed (i) in the case of notices, requests and demands to or upon the Company, the Agent, and the CAF Loan Agent, as set forth below and (ii) in the case of notices, requests and demands to or upon any Bank, as set forth in an administrative questionnaire delivered by such Bank to the Agent, or, in each case, to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

The Company:	Humana Inc. The Humana Building 500 West Main Street Louisville, Kentucky 40202 Attention: James H. Bloem Senior Vice President and Chief Financial Officer Telecopy: (502) 580-3615
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The Agent and
CAF Loan Agent:

JPMorgan Chase Bank
1111 Fannin, 10th Floor
Houston, TX 77272

Attention: Cherry Armaez
Telecopy: (713) 750-2782

with a copy to:

JPMorgan Chase Bank
270 Park Avenue, 4th Floor
New York, NY 10017

Attention: Dawn Lee Lum
Telecopy: (212) 270-5100

provided that any notice, request or demand to or upon the Agent or the Banks pursuant to Section 2 shall not be effective until received.

10.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

10.5 Payment of Expenses and Taxes; Indemnity. (a) The Company agrees (i) to pay or reimburse the Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the Notes and any other documents prepared in connection herewith, and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent, (ii) to pay or reimburse each Bank and the Agent for all their reasonable costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the Notes and any such other documents, including, without limitation, reasonable fees and disbursements of counsel (including, without limitation, the allocated cost of in-house counsel) to the Agent and to the several Banks, and (iii) to pay, indemnify, and hold each Bank and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or

consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes and any such other documents.

(b) The Company will indemnify each of the Agent and the Banks and the directors, officers and employees thereof and each Person, if any, who controls each one of the Agent and the Banks (any of the foregoing, an “Indemnified Person”) and hold each Indemnified Person harmless from and against any and all claims, damages, liabilities and expenses (including without limitation all fees and disbursements of counsel (including without limitation, the allocated cost of in-house counsel) with whom an Indemnified Person may consult in connection therewith and all expenses of litigation or preparation therefor) which an Indemnified Person may incur or which may be asserted against it in connection with any litigation or investigation (whether or not such Indemnified Person is a party to such litigation or investigation) involving this Agreement, the use of any proceeds of any Loans under this Agreement by the Company or any Subsidiary, any officer, director or employee thereof, excluding litigation commenced by the Company against any of the Agent or the Banks which (i) seeks enforcement of any of the Company’s rights hereunder and (ii) is determined adversely to any of the Agent or the Banks (all such non-excluded claims, damages, liabilities and expenses, “Indemnified Liabilities”), provided that the Company shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities to the extent such Indemnified Liabilities resulted from the gross negligence or willful misconduct of such Indemnified Person.

(c) The agreements in this subsection 10.5 shall survive repayment of the Loans and all other amounts payable hereunder.

10.6 Successors and Assigns; Participations; Purchasing Banks. (a) This Agreement shall be binding upon and inure to the benefit of the Company, the Banks, the Agent, all future holders of the Notes and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Bank.

(b) Any Bank other than a Conduit Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other entities (“Participants”) participating interests in any Loans owing to such Bank, any Notes held by such Bank, any Commitments of such Bank and/or any other interests of such Bank hereunder and under the other Loan Documents. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank’s obligations under this Agreement to the other parties under this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Notes for all purposes under this Agreement, and the Company and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank’s rights and obligations under this Agreement and under the other Loan Documents. The Company agrees that if amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of offset in respect of its participating interest in amounts owing under this Agreement and any Notes to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Notes, provided that such right of offset shall be subject to the obligation of such Participant to share with the Banks, and the Banks agree to share with such Participant, as provided in subsection

10.7. The Company also agrees that each Participant shall be entitled to the benefits of subsections 2.13, 2.14 and 2.15 with respect to its participation in the Commitments and the Eurodollar Loans outstanding from time to time; provided that no Participant shall be entitled to receive any greater amount pursuant to such subsections than the transferor Bank would have been entitled to receive in respect of the amount of the participation transferred by such transferor Bank to such Participant had no such transfer occurred. No Participant shall be entitled to consent to any amendment, supplement, modification or waiver of or to this Agreement or any Note, unless the same is an amendment, supplement, modification or waiver described in clause (a) of the proviso to subsection 10.1.

(c) Any Bank other than any Conduit Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time assign to one or more banks or other entities ("CAF Loan Assignees") any CAF Loan owing to such Bank and any Individual CAF Loan Note held by such Bank evidencing such CAF Loan, pursuant to a CAF Loan Assignment executed by the assignor Bank, the CAF Loan Assignee and the Agent (and, in the case of a CAF Loan Assignee that is not then a Bank, a Lender Affiliate or an Approved Fund, by the Company (which consent shall not be unreasonably withheld)); provided, that no consent of the Company shall be required while an Event of Default is continuing. Upon such execution, from and after the date of such CAF Loan Assignment, the CAF Loan Assignee shall, to the extent of the assignment provided for in such CAF Loan Assignment, be deemed to have the same rights and benefits of payment and enforcement with respect to such CAF Loan and Individual CAF Loan Note and the same rights of offset pursuant to subsection 10.7 and under applicable law and obligation to share pursuant to subsection 10.7 as it would have had if it were a Bank hereunder; provided that unless such CAF Loan Assignment shall otherwise specify and a copy of such CAF Loan Assignment shall have been delivered to the Agent for its acceptance and recording in the Register in accordance with subsection 10.6(f), the assignor thereunder shall act as collection agent for the CAF Loan Assignee thereunder, and the Agent shall pay all amounts received from the Company which are allocable to the assigned CAF Loan or Individual CAF Loan Note directly to such assignor without any further liability to such CAF Loan Assignee. A CAF Loan Assignee under a CAF Loan Assignment shall not, by virtue of such CAF Loan Assignment, become a party to this Agreement or have any rights to consent to or refrain from consenting to any amendment, waiver or other modification of any provision of this Agreement or any related document; provided that if a copy of such CAF Loan Assignment shall have been delivered to the Agent for its acceptance and recording in the Register in accordance with subsection 10.6(f), neither the principal amount of, the interest rate on, nor the maturity date of any CAF Loan or Individual CAF Loan Note assigned to the CAF Loan Assignee thereunder will be modified without the written consent of such CAF Loan Assignee. If a CAF Loan Assignee has caused a CAF Loan Assignment to be recorded in the Register in accordance with subsection 10.6(f), such CAF Loan Assignee may thereafter, in the ordinary course of its business and in accordance with applicable law, assign such Individual CAF Loan Note to any Bank, to any affiliate or subsidiary of such CAF Loan Assignee or to any other financial institution that has total assets in excess of \$1,000,000,000 and that in the ordinary course of its business extends credit of the type evidenced by such Individual CAF Loan Note, and the foregoing provisions of this subsection 10.6(c) shall apply, mutatis mutandis, to any such assignment by a CAF Loan Assignee. Except in accordance with the preceding sentence, CAF Loans and Individual CAF Loan Notes may not be further assigned by a CAF Loan Assignee, subject to any legal or regulatory requirement that the CAF Loan Assignee's assets must remain under its control.

(d) Any Bank other than a Conduit Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more additional banks or financial institutions or Approved Funds (“Purchasing Banks”) all or any part of its rights and/or obligations under this Agreement and the Notes pursuant to a Commitment Transfer Supplement, executed by such Purchasing Bank, such transferor Bank, the Issuing Bank and the Agent (which consent shall not be unreasonably withheld) (and, in the case of a Purchasing Bank that is not then a Bank, a Lender Affiliate or an Approved Fund, by the Company (which consent shall not be unreasonably withheld)); provided, however, that (i) the Commitments purchased by such Purchasing Bank that is not then a Bank, a Lender Affiliate or an Approved Fund shall be equal to or greater than \$5,000,000, (ii) the transferor Bank which has transferred less than all of its Loans and Commitments to any such Purchasing Bank shall retain a minimum Commitment, after giving effect to such sale, equal to or greater than \$10,000,000 and (iii) no consent of the Company shall be required while an Event of Default is continuing. For purposes of the proviso contained in the previous sentence, the amounts described therein shall be aggregated in respect of each Bank, its Lender Affiliates and Approved Funds, if any. Upon (i) such execution of such Commitment Transfer Supplement, (ii) delivery of an executed copy thereof to the Company and (iii) payment by such Purchasing Bank, such Purchasing Bank shall for all purposes be a Bank party to this Agreement and shall have all the rights and obligations of a Bank under this Agreement, to the same extent as if it were an original party hereto with the Commitment Percentage of the Commitments set forth in such Commitment Transfer Supplement. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Bank and the resulting adjustment of Commitment Percentages arising from the purchase by such Purchasing Bank of all or a portion of the rights and obligations of such transferor Bank under this Agreement and the Notes. Upon the consummation of any transfer to a Purchasing Bank, pursuant to this subsection 10.6(d), the transferor Bank, the Agent and the Company shall make appropriate arrangements so that, if required, replacement Notes are issued to such transferor Bank and new Notes or, as appropriate, replacement Notes, are issued to such Purchasing Bank, in each case in principal amounts reflecting their Commitment Percentages or, as appropriate, their outstanding Loans as adjusted pursuant to such Commitment Transfer Supplement. Notwithstanding the foregoing, any Conduit Lender may assign at any time to its designating Bank hereunder without the consent of the Company or the Agent any or all of the Loans it may have funded hereunder and pursuant to its designation agreement and without regard to the limitations set forth in the first sentence of this subsection 10.6(d).

For the purpose of this subsection 10.6(d), “Approved Fund” means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Bank, (b) an Affiliate of a Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank.

(e) The Agent shall maintain at its address referred to in subsection 10.2 copy of each CAF Loan Assignment and each Commitment Transfer Supplement delivered to it and a register (the “Register”) for the recordation of (i) the names and addresses of the Banks and the Commitment of, and principal amount of the Loans owing to, each Bank from time to time, and (ii) with respect to each CAF Loan Assignment delivered to the Agent, the name and address of the CAF Loan Assignee and the principal amount of each CAF Loan owing to such CAF Loan Assignee. The entries in the Register shall be conclusive, in the absence of manifest error, and

the Company, the Agent and the Banks may treat each Person whose name is recorded in the Register as the owner of the Loan recorded therein for all purposes of this Agreement. The Register shall be available for inspection by the Company or any Bank or CAF Loan Assignee at any reasonable time and from time to time upon reasonable prior notice.

(f) Upon its receipt of a CAF Loan Assignment executed by an assignor Bank and a CAF Loan Assignee, together with payment to the Agent of a registration and processing fee of \$2,500, the Agent shall promptly accept such CAF Loan Assignment, record the information contained therein in the Register and give notice of such acceptance and recordation to the assignor Bank, the CAF Loan Assignee and the Company. Upon its receipt of a Commitment Transfer Supplement executed by a transferor Bank, a Purchasing Bank and the Agent (and, in the case of a Purchasing Bank that is not then a Bank, a Lender Affiliate or an Approved Fund, by the Company (so long as no Event of Default is continuing)) together with payment to the Agent of a registration and processing fee of \$3,500, the Agent shall (i) promptly accept such Commitment Transfer Supplement (ii) on the Transfer Effective Date determined pursuant thereto record the information contained therein in the Register and give notice of such acceptance and recordation to the Banks and the Company.

(g) The Company authorizes each Bank to disclose to any Participant, CAF Loan Assignee or Purchasing Bank (each, a “Transferee”) and any prospective Transferee any and all financial information in such Bank’s possession concerning the Company which has been delivered to such Bank by the Company pursuant to this Agreement or which has been delivered to such Bank by the Company in connection with such Bank’s credit evaluation of the Company prior to entering into this Agreement.

(h) If, pursuant to this subsection 10.6, any interest in this Agreement or any Note is transferred to a Non-U.S. Bank, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer to comply with the provisions of subsection 2.15.

(i) For the avoidance of doubt, the parties to this Agreement acknowledge that the provisions of this subsection 10.6 concerning assignments relate only to absolute assignments and that such provisions do not prohibit assignments creating security interests, including any pledge or assignment by a Bank to any Federal Reserve Bank in accordance with applicable law.

(j) Each of the Company, each Bank and the Agent hereby confirms that it will not institute against a Conduit Lender or join any other Person in instituting against a Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Conduit Lender; provided, however, that each Bank designating any Conduit Lender hereby agrees to indemnify, save and hold harmless each other party hereto for any loss, cost, damage or expense arising out of its inability to institute such a proceeding against such Conduit Lender during such period of forbearance.

10.7 Adjustments; Set-off (a) Except to the extent that this Agreement provides for payments to be allocated to a particular Bank or Banks, if any Bank (a “Benefitted Bank”) shall at any time receive any payment of all or part of its Loans or the Reimbursement

Obligations owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by offset, pursuant to events or proceedings of the nature referred to in subsection 8.1(f), or otherwise) in a greater proportion than any such payment to and collateral received by any other Bank, if any, in respect of such other Bank's Loans or the Reimbursement Obligations owing to it, or interest thereon, such Benefitted Bank shall purchase for cash from the other Banks such portion of each such other Bank's Loans or the Reimbursement Obligations then owing to it, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such Benefitted Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefitted Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Company agrees that each Bank so purchasing a portion of another Bank's Loan may exercise all rights of a payment (including, without limitation, rights of offset) with respect to such portion as fully as if such Bank were the direct holder of such portion.

(b) In addition to any rights and remedies of the Banks provided by law, at any time when an Event of Default is in existence, each Bank shall have the right, without prior notice to the Company, any such notice being expressly waived by the Company to the extent permitted by applicable law, upon any amount becoming due and payable by the Company hereunder (whether at the stated maturity, by acceleration or otherwise), to set off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank or any branch or agency thereof to or for the credit or the account of the Company, as the case may be. Each Bank agrees promptly to notify the Company and the Agent after any such setoff and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Company and the Agent.

10.9 GOVERNING LAW. THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

10.10 WAIVERS OF JURY TRIAL. THE COMPANY, THE AGENT, THE CAF LOAN AGENT AND THE BANKS EACH HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

10.11 Submission To Jurisdiction; Waivers. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof; and

(b) consents that any such action or proceeding may be brought in such courts, and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same.

10.12 Confidentiality of Information. Each Bank acknowledges that some of the information furnished to such Bank pursuant to this Agreement may be received by such Bank prior to the time such information shall have been made public, and each Bank agrees that it will keep all information so furnished confidential and shall make no use of such information until it shall have become public, except (a) in connection with matters involving operations under or enforcement of this Agreement or the Notes, (b) in accordance with each Bank's obligations under law or regulation or pursuant to subpoenas or other process to make information available to governmental or regulatory agencies and examiners or to others, (c) to each Bank's Affiliates, employees, agents (including accountants, legal counsel and other advisors) and Transferees and prospective Transferees so long as such Persons agree to be bound by this subsection 10.12 and (d) with the prior written consent of the Company.

10.13 Existing Credit Agreements. Each Bank which is a Bank party to any Existing Credit Agreement and the Company acknowledge that the commitments under each of the Existing Credit Agreements will terminate on the Closing Date, and each such Bank hereby waives any requirement of any Existing Credit Agreement that the Company give any notice of such termination.

10.14 USA PATRIOT Act. Each Bank hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Bank to identify the Company in accordance with the Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

HUMANA INC.

By: /s/ James H. Bloem

Name: James H. Bloem

Title: Sr. Vice President & Chief Financial Officer

Humana 2004 Five Year Credit Agreement

JPMORGAN CHASE BANK, as Agent, as CAF Loan Agent
and as a Bank

By: /s/ Dawn Lee Lum

Name: Dawn Lee Lum
Title: Vice President

Humana 2004 Five Year Credit Agreement

Bank of America, N.A., as a Bank

By: /s/ Joseph L. Corah

Name: Joseph L. Corah
Title: Principal

Humana 2004 Five Year Credit Agreement

CITIBANK, N.A., as Syndication Agent and as a Bank

By: /s/ David A. Dodge

Name: David A. Dodge
Title: Managing Director

Humana 2004 Five Year Credit Agreement

U.S. BANK NATIONAL ASSOCIATION, as Syndication Agent
and as a Bank

By: /s/ Sandra J. Hartay

Name: Sandra J. Hartay
Title: Vice President

Humana 2004 Five Year Credit Agreement

WACHOVIA BANK, NATIONAL ASSOCIATION, as
Syndication Agent and as a Bank

By: /s/ Kimberly Shaffer

Name: Kimberly Shaffer
Title: Director

Humana 2004 Five Year Credit Agreement

National City Bank of Kentucky, as a Bank

By: /s/ Deroy Scott

Name: Deroy Scott
Title: Senior Vice President

Humana 2004 Five Year Credit Agreement

PNC Bank, National Association, as a Bank

By: /s/ Richard M. Ellis

Name: Richard M. Ellis

Title: Senior Vice President

Humana 2004 Five Year Credit Agreement

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ Edward McColly

Name: Edward McColly

Title: Vice President & Department Head

Humana 2004 Five Year Credit Agreement

Branch Banking and Trust Co., as a Bank

By: /s/ Johnny L. Perry

Name: Johnny L. Perry
Title: Senior Vice President

Humana 2004 Five Year Credit Agreement

Fifth Third Bank (Louisville)

By: /s/ Richard G. Whipple

Name: Richard G. Whipple
Title: Assistant Vice President

Humana 2004 Five Year Credit Agreement

William Street Commitment Corporation, as a Bank (Recourse
only to assets of William Street Commitment Corporation)

By: /s/ Jennifer M. Hill

Name: Jennifer M. Hill
Title: Chief Financial Officer

Humana 2004 Five Year Credit Agreement

The Bank of New York, as a Bank

By: /s/ William M. Barnum

Name: William M. Barnum
Title: Vice President

Humana 2004 Five Year Credit Agreement

UMB Bank, n.a., as a Bank

By: /s/ Charles J. Wolf

Name: Charles J. Wolf

Title: Senior Vice President

Humana 2004 Five Year Credit Agreement

Wells Fargo Bank, National Association, as a Bank

By: /s/ Horace S. Jennings

Name: Horace S. Jennings
Title: Vice President

By: /s/Alex Idichandy

Name: Alex Idichandy
Title: Vice President

Humana 2004 Five Year Credit Agreement

Hibernia National Bank, as a Bank

By: /s/ Katharine G. Kay

Name: Katharine G. Kay
Title: Vice President

Humana 2004 Five Year Credit Agreement

Commitment Amounts and Percentages

Commitment Amounts and Percentages

Name of Bank	Commitment Amount	Commitment Percentage
JPMORGAN CHASE BANK	\$ 75,000,000	12.50%
BANK OF AMERICA, N.A.	60,000,000	10.00%
CITIBANK, N.A.	60,000,000	10.00%
US BANK NATIONAL ASSOCIATION	60,000,000	10.00%
WACHOVIA BANK, NATIONAL ASSOCIATION	60,000,000	10.00%
NATIONAL CITY BANK OF KENTUCKY	45,000,000	7.50%
PNC BANK, NATIONAL ASSOCIATION	45,000,000	7.50%
SUMITOMO MITSUI BANKING CORPORATION	45,000,000	7.50%
BRANCH BANKING & TRUST CO.	22,500,000	3.75%
FIFTH THIRD BANK	22,500,000	3.75%
GOLDMAN SACHS	22,500,000	3.75%
THE BANK OF NEW YORK	22,500,000	3.75%
UMB BANK, N.A.	22,500,000	3.75%
WELLS FARGO BANK	22,500,000	3.75%
HIBERNIA NATIONAL BANK	15,000,000	2.50%
TOTAL	\$600,000,000	100.00%

PRICING GRID

<u>Public Debt Ratings S&P/Moody's</u>	<u>Alternate Base Rate Margin</u>	<u>Eurodollar Margin</u>	<u>Facility Fee</u>
Level 1 <input type="checkbox"/> BBB+/Baa1	0 bps	50.0 bps	12.5 bps
Level 2 <input type="checkbox"/> BBB/Baa2	0 bps	60.0 bps	15.0 bps
Level 3 <input type="checkbox"/> BBB-/Baa3	0 bps	80.0 bps	20.0 bps
Level 4 <input type="checkbox"/> BB+/Ba1	0 bps	100.0 bps	25.0 bps
Level 5 <input type="checkbox"/> <BB+/Ba1	12.5 bps	112.5 bps	37.5 bps

Pricing will be determined based upon the higher of the ratings from S&P or Moody's; provided, that (i) in the event the Company's ratings are more than one Level apart, the pricing will be determined by using the rating which is one Level above the lower rating, (ii) if on any day the rating of only one of S&P or Moody's is available, then the Level of such rating shall be applicable for such day and (iii) if on any day a rating is available from neither of S&P or Moody's, then Level 5 shall be applicable for such day. Any change in the applicable Level resulting from a change in the rating of a S&P or Moody's shall become effective on the date such change is publicly announced by S&P or Moody's, as applicable.

Humana Inc.
 Computation of Ratio of Earnings to Fixed Charges

	For the nine months ended September 30, 2004	For the twelve months ended December 31,				
		2003	2002	2001	2000	1999
		(Dollars in thousands)				
Income (loss) before income taxes	\$ 352,599	\$344,716	\$209,934	\$183,080	\$113,990	\$(404,839)
Fixed charges	35,795	40,972	44,349	52,010	52,843	53,592
Total earnings (loss)	\$ 388,394	\$385,688	\$254,283	\$235,090	\$166,833	\$(351,247)
Interest charged to expense	\$ 16,524	\$ 17,367	\$ 17,252	\$ 25,302	\$ 28,615	\$ 33,393
One-third of rent expense	19,271	23,605	27,097	26,708	24,228	20,199
Total fixed charges	\$ 35,795	\$ 40,972	\$ 44,349	\$ 52,010	\$ 52,843	\$ 53,592
Ratio of earnings to fixed charges (1)(2)	10.9x	9.4x	5.7x	4.5x	3.2x	(3)

Notes

- (1) For the purposes of determining the ratio of earnings to fixed charges, earnings consist of income or loss before income taxes and fixed charges. Fixed charges include gross interest expense, amortization of deferred financing expenses and an amount equivalent to interest included in rental charges. One-third of rental expense represents a reasonable approximation of the interest amount.
- (2) There are no shares of preferred stock outstanding.
- (3) Due to a loss in 1999, caused primarily by pretax charges of \$584.8 million, the ratio coverage was less than 1.0x. Additional pretax earnings of \$404.8 million would be needed to achieve a coverage of 1.0x.

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Michael B. McCallister, principal executive officer of Humana Inc., certify that:

1. I have reviewed this Quarterly Report of Humana Inc. (the "Company") on Form 10-Q for the period ending September 30, 2004;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

Signature: /s/ Michael B. McCallister

Michael B. McCallister
Principal Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, James H. Bloem, principal financial officer of Humana Inc., certify that:

1. I have reviewed this Quarterly Report of Humana Inc. (the "Company") on Form 10-Q for the period ending September 30, 2004;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

Signature: /s/ James H. Bloem

James H. Bloem
Principal Financial Officer

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

In connection with the Quarterly Report of Humana Inc. (the "Company") on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Humana Inc., that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

/s/ Michael B. McCallister

Michael B. McCallister
Principal Executive Officer

November 5, 2004

/s/ James H. Bloem

James H. Bloem
Principal Financial Officer

November 5, 2004

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