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

FORM 10-Q

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

For the quarterly period ended September 30, 2000

OR

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

For the transition period from ____ to ____

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-0647538**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

(502) 580-1000
(Registrants' 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 X No__

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

Class of Common Stock	Outstanding at October 31, 2000
$0.16 2/3 par value	**169,137,624 shares**

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Condensed Consolidated Statements of Income

Humana Inc.
For the quarters and nine months ended September 30, 2000 and 1999
Unaudited
(In millions, except per share results)

	Quarters Ended		Nine Months Ended	
	2000	1999	2000	1999
Revenues:				
Premiums	$ 2,588	$ 2,527	$ 7,865	$ 7,416
Interest and other income	28	30	89	123
Total revenues	2,616	2,557	7,954	7,539
Operating expenses:				
Medical	2,179	2,148	6,664	6,378
Selling, general and administrative	363	338	1,079	992
Depreciation and amortization	38	30	109	91
Total operating expenses	2,580	2,516	7,852	7,461
Income from operations	36	41	102	78
Interest expense	7	7	22	25
Income before income taxes	29	34	80	53
Provision for income taxes	6	12	17	19
Net income	$ 23	$ 22	$ 63	$ 34
Basic earnings per common share	$ 0.14	$ 0.13	$ 0.38	$ 0.20
Diluted earnings per common share	$ 0.14	$ 0.13	$ 0.38	$ 0.20

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Balance Sheets

Humana Inc.
Unaudited at September 30, 2000
(In millions, except share amounts)

	Sept. 30, 2000	Dec. 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 364	$ 978
Marketable securities	1,463	1,507
Premiums receivable, less allowance for doubtful accounts		
of $65 at September 30, 2000 and $61 at December 31, 1999	207	225
Other	304	354
Total current assets	2,338	3,064
Long-term marketable securities	153	253
Property and equipment, net	429	418
Cost in excess of net assets acquired	820	806
Other	176	359
Total assets	$ 3,916	$ 4,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical and other expenses payable	$ 1,216	$ 1,432
Trade accounts payable and accrued expenses	408	482
Book overdraft	129	215
Unearned premium revenues	90	349
Commercial paper	610	686
Total current liabilities	2,453	3,164
Long-term medical and other expenses payable		324
Professional liability and other obligations	142	144
Total liabilities	2,595	3,632
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $1 par; authorized 10,000,000 shares, none issued		
Common stock; $0.16 2/3 par, authorized 300,000,000 shares		
issued 169,141,623 shares at September 30, 2000		
and 167,514,710 shares at December 31, 1999	28	28
Capital in excess of par value	922	899
Deferred compensation - restricted stock	(33)	(2)
Retained earnings	434	371
Accumulated other comprehensive loss	(17)	(28)
Treasury stock, at cost, 1,558,348 shares	(13)	
Total stockholders' equity	1,321	1,268
Total liabilities and stockholders' equity	$ 3,916	$ 4,900

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

Humana Inc.
For the nine months ended September 30, 2000 and 1999
Unaudited
(In millions)

	2000	1999
Net cash used in operating activities	$ (239)	$ (241)
Cash flows from investing activities:		
Acquisitions, net of cash and cash equivalents acquired	(12)	(14)
Divestitures, net of cash and cash equivalents disposed	32	
Purchases of marketable securities	(732)	(681)
Proceeds from maturities of marketable securities	365	290
Proceeds from sales of marketable securities	260	441
Purchases of property and equipment	(99)	(65)
Proceeds from sales of property and equipment	14	27
Other	(12)	(10)
Net cash used in investing activities	(184)	(12)

Cash flows from financing activities:		
Repayment of line of credit		(93)
Net commercial paper repayments	(76)	(63)
Change in book overdraft	(86)	(18)
Common stock repurchases	(26)	
Other	(3)	(4)
Net cash used in financing activities	(191)	(178)
Decrease in cash and cash equivalents	(614)	(431)
Cash and cash equivalents at beginning of period	978	913
Cash and cash equivalents at end of period	$ 364	$ 482
Supplemental cash flow information:		
Interest payments	$ 23	$ 25
Income tax refunds, net	$ 35	$ 57
Details of businesses acquired in purchase transactions:		
Fair value of net assets acquired	$ 105	$ 20
Less: liabilities assumed	(93)	(6)
Cash paid for acquired businesses, net of cash acquired	$ 12	$ 14

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Humana Inc.
Unaudited

A. 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 generally accepted accounting principles or those normally made in an Annual Report on Form 10-K. For further information, the reader of this Form 10-Q should refer to the Form 10-K of Humana Inc. (the "Company" or "Humana") for the year ended December 31, 1999 filed with the Securities and Exchange Commission on March 30, 2000.

The preparation of the Company's condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on knowledge of current events and anticipated future events, actual results may ultimately differ from those estimates.

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

Effective January 1, 2000, the Company adopted a 20 year amortization period, from the date of acquisition, for goodwill previously amortized over 40 years. The change in the amortization period of goodwill will increase amortization expense $25 million annually, while the Company's fourth quarter 1999 long-lived asset impairment expense will decrease depreciation and amortization $13 million annually.

B. First Quarter 1999 Additional Medical Expense and Tangible Asset Gain

During the first quarter of 1999, the Company recorded $90 million of additional medical expense for premium deficiency, reserve strengthening and provider costs. As a result of management's assessment of the profitability of its contracts for providing health care services to its members in certain markets, the Company recorded a provision for probable future losses (premium deficiency) of $50 million. Ineffective provider risk-sharing contracts and the impact of the March 31, 1999 HCA - The Healthcare Company, formerly Columbia/HCA Healthcare Corporation ("HCA") hospital agreement in Florida on current and projected future medical costs contributed to the premium deficiency. The beneficial effect from losses charged to the premium deficiency liability was $14 million and $32 million for the quarter and nine months ended September 30, 1999, respectively. Remaining liabilities related to premium deficiency provisions recorded in 1998 and 1999 were exhausted as of December 31, 1999 and, therefore, there was no beneficial effect from losses charged to these liabilities in the quarter or nine months ended September 30, 2000. Because the majority of the Company's customers' contracts renew annually, the Company does not anticipate the need for a premium deficiency charged to earnings in 2000, absent unanticipated adverse events or changes in circumstances.

Prior period adverse claims development primarily in the Company's PPO and Medicare products initially identified during an analysis of February and March 1999 medical claims resulted in a $35 million reserve strengthening. The Company releases or strengthens medical claims reserves when favorable or adverse development in prior periods exceed actuarial margins existing in the reserves. In addition, the Company paid HCA $5 million to settle certain contractual issues associated with the March 31, 1999 hospital agreement in Florida.

Also during the first quarter of 1999, the Company recorded a $12 million gain on the sale of a tangible asset which has been included in interest and other income in the accompanying Condensed Consolidated Statements of Income.

C. Recent Transactions

Divestitures

Effective July 1, 2000, the Company completed transactions to reinsure its Medicare supplement business and sell its North Florida Medicaid business. On April 10, 2000 and March 31, 2000, the Company completed the sale of its workers' compensation administrative services and run-off businesses, respectively. The Company recorded an estimated $118 million loss in 1999 related to these four transactions. There was no change in the estimated loss during 2000. Cash proceeds were $101 million ($32 million net of divested subsidiary's cash) for the nine months ended September 30, 2000. Revenue and pretax results associated with these four businesses for the quarters and nine months ended September 30, 2000 and 1999 were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	2000	1999	2000	1999
Revenues	$ __	$ 55	$ 103	$ 165
Pretax results	$ __	$ (4)	$ (8)	$ (10)

Acquisitions

On August 17, 2000, the Company acquired Jacobson Management Group, Inc., a hospital in-patient management services firm for approximately $5 million in cash.

On June 9, 2000, the Company acquired American Physicians Life Insurance Company, an operating shell entity for the Company's e-business for approximately $7 million in cash.

On May 10, 2000, the Company acquired Wisconsin National Life Insurance Company, an operating shell entity for the Company's dental business for approximately $12 million in cash.

On January 31, 2000, the Company acquired Memorial Sisters of Charity Health Network ("MSCHN"), a Houston based health plan for approximately $50 million in cash.

On June 1, 1999, the Company reached an agreement with FPA Medical Management, Inc. ("FPA"), FPA's lenders and a federal bankruptcy court under which the Company acquired the operations of 50 medical centers from FPA for approximately $14 million in cash. The Company has subsequently transferred operating responsibility for all acquired FPA medical centers under long-term provider agreements.

The above acquisitions were accounted for under the purchase method of accounting. In connection with these acquisitions, the Company allocated the acquisition cost to net tangible and identifiable intangible assets based upon their fair value. Identifiable intangible assets primarily relate to the cost of the acquired licenses and provider contracts. Any remaining value not assigned to net tangible or identifiable intangible assets was then allocated to cost in excess of net assets acquired, or goodwill. Goodwill and identifiable intangible assets acquired, recorded in connection with the acquisitions preliminarily, was $71 million and $17 million for the nine months ended September 30, 2000 and 1999, respectively. The identifiable intangible assets are being amortized over periods ranging from five to 20 years while goodwill is being amortized over periods ranging from six to 20 years.

D. Contingencies

The Company's Medicare HMO contracts with the federal government are renewed for a one-year term each December 31, unless terminated 90 days prior thereto. Legislative proposals are being considered which may revise the Medicare program's current support of the use of managed health care for Medicare beneficiaries and future reimbursement rates thereunder. Management is unable to predict the outcome of these proposals or the impact they may have on the Company's financial position, results of operations or cash flows. The Company's Medicaid contracts are generally annual contracts with various states except for the two-year contract with the Health Insurance Administration in Puerto Rico which expires April 30, 2001. Additionally, the Company has renewed its TRICARE contract for up to two additional years, subject to annual renewal terms, beginning July 1, 2001. The loss of these contracts (other than the contract in Puerto Rico) or significant changes in these programs as a result of legislative action, including reductions in payments or increases in benefits without corresponding increases in payments, would have a material adverse effect on the revenues, profitability and business prospects of the Company. In addition, the Company continually contracts and seeks to renew contracts with providers at rates designed to ensure adequate profitability. To the extent the Company is unable to obtain such rates, its financial position, results of operations and cash flows could be adversely impacted.

During the ordinary course of its business, the Company is or may become subject to pending or threatened litigation or other legal actions. These include, but are not limited to, routine, regular and special audits by HCFA, state insurance departments, the Office of Personnel Management, the Office of Inspector General and other state and federal regulatory agencies. Management does not believe that any pending or threatened legal actions against the Company or audits by agencies will have a material adverse effect on the Company's financial position, results of operations or cash flows. However, the likelihood or outcome of current or future suits cannot be accurately predicted, and they could adversely affect the Company's financial position, results of operations or cash flows. See *Legal Proceedings* in Part II.

E. Earnings Per Common Share

Basic earnings per common share is computed 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. Reconciliations of the average number of unrestricted common shares outstanding used in the calculation of basic earnings per common share and diluted earnings per common share for the quarters and nine months ended September 30, 2000 and 1999 are as follows:

	Quarters Ended		Nine Months Ended	
	2000	1999	2000	1999
Shares used to compute basic earnings per common share	165,379,590	167,570,888	166,957,116	167,568,726
Effect of dilutive employee stock options and restricted shares	310,665	458,959	136,637	757,674
Shares used to compute diluted earnings per common share	165,690,255	168,029,847	167,093,753	168,326,400
Number of antidilutive employee stock options and restricted shares	13,807,697	7,782,619	11,676,093	8,796,353

F. Comprehensive Income

Details supporting the computation of comprehensive income for the quarters and nine months ended September 30, 2000 and 1999 are as follows (in millions):

	Quarters Ended		Nine Months Ended	
	2000	1999	2000	1999
Net income	$ 23	$ 22	$ 63	$ 34
Net unrealized investment gains (losses), net of tax	10	(8)	11	(34)
Comprehensive income	$ 33	$ 14	$ 74	$

G. Debt

The Company maintains a revolving credit agreement ("Credit Agreement") which provides a line of credit of up to $1.0 billion and expires in August 2002. Principal amounts outstanding under the Credit Agreement bear interest at either a fixed rate or a floating rate, ranging from LIBOR plus 35 basis points to LIBOR plus 80 basis points, depending on the Company's credit ratings. The Credit Agreement contains customary covenants and events of default including, but not limited to, financial tests for interest coverage and leverage. The Company was in compliance with all covenants at September 30, 2000. The Company also maintains and issues short-term debt securities under a commercial paper program, which is backed by the Credit Agreement. All borrowings outstanding at September 30, 2000 were issued under the commercial paper program. The average interest rate on commercial paper borrowings was 7.1 percent and 6.7 percent for the quarter and nine months ended September 30, 2000, respectively.

H. Stockholders' Equity

In July 2000, the Company's Board of Directors authorized the repurchase of up to five million of its common shares. This program allows the Company to repurchase the shares from time to time in open-market purchases, in negotiated transactions, or by using forward-purchase contracts. Shares repurchased under the Board of Directors' authorization are used in connection with various equity incentive plans aimed at the retention of key employees. Through September 30, 2000, the Company paid $26 million to repurchase 3.3 million of its common shares at an average cost of $7.65 per share.

In August 2000, the Company awarded 4.8 million shares of restricted stock to key employees all of which vest in August 2003. Deferred compensation under this restricted stock award is amortized ratably over the three year vesting period. In conjunction with the restricted stock grant, 1.7 million treasury shares were reissued.

I. Segment Information

The Company is organized into two business units: the Health Plan segment and the Small Group segment. The Health Plan segment includes the Company's large group commercial (100 employees and over), Medicare, Medicaid, ASO, and military or TRICARE business. The Small Group segment includes small group commercial (under 100 employees) and specialty benefit lines, including dental, life and short-term disability. During the second quarter of 2000, the Company refined its allocation of administrative

expenses between segments based upon improved activity-based cost studies. Prior period segment administrative expenses were reclassified to conform with the current period presentation. Financial information for the Company's Health Plan and Small Group segments for the quarters and nine months ended September 30, 2000 and 1999 is as follows (in millions):

	Quarters Ended		Nine Months Ended	
	2000	1999	2000	1999
Premium revenues:				
Health Plan	$ 1,823	$ 1,740	$ 5,516	$ 5,120
Small Group	765	787	2,349	2,296
Total premium revenues	$ 2,588	$ 2,527	$ 7,865	$ 7,416
Underwriting margin:				
Health Plan	$ 248	$ 235	$ 735	$ 630
Small Group	161	144	466	408
Total underwriting margin	$ 409	$ 379	$ 1,201	$ 1,038
Income before income taxes:				
Health Plan	$ 11	$ 32	$ 55	$ 47
Small Group	18	2	25	$ 6
Total income before income taxes	$ 29	$ 34	$ 80	$ 53

For the nine months ended September 30, 1999, Health Plan and Small Group underwriting margin and pretax results include $66 million and $24 million, respectively, of additional medical expense recorded during the quarter ended March 31, 1999 as previously discussed in Note B.

J. Impact of Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). In general, SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities in the balance sheet at their fair value, and sets forth the manner in which gains or losses thereon are to be recorded. The treatment of such gains or losses is dependent upon the type of exposure, if any, for which the derivative is designated as a hedge. This standard is effective for the Company's financial statements beginning January 1, 2001, with early adoption permitted. Management of the Company anticipates that the adoption of SFAS No. 133 on January 1, 2001 will not have a material impact on the Company's financial position, results of operations or cash flows.

K. Reclassifications

Certain reclassifications have been made to the prior year's condensed consolidated financial statements to conform with the current year presentation.

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

Cautionary Statements

The statements contained in this Form 10-Q include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases, presentations to securities analysts or investors, and in oral statements made by or with the approval of one of the Company's executive officers, the words or phrases "believes," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results discussed in the forward-looking statements. Readers are cautioned that a number of factors, which are described herein, could adversely affect the Company's ability to obtain these results. These include the effects of either federal or state health care reform or other legislation, including the *Patients' Bill of Rights Act* and the *Health Insurance Portability and Accountability Act*, any changes in the Medicare reimbursement system, the ability of health care providers (including physician practice management companies) to comply with current contract terms, renewal of the Company's provider contracts at favorable rates and renewal of the Company's Medicare, Medicaid and TRICARE contracts with various governmental authorities. Such factors also include the effects of other general business conditions, including but not limited to, premium rate and yield changes, retrospective premium adjustments, changes in commercial and Medicare HMO membership, medical and pharmacy cost trends, the ability to negotiate favorable rates with providers, compliance with debt covenants, changes in the Company's debt rating and its ability to borrow under its commercial paper program, operating subsidiary capital requirements, the success of the Company's improvement initiatives including its e-business strategies, competition, general economic conditions and the retention of key employees. In addition, the Company and the managed care industry as a whole are experiencing increased governmental audits, investigations and litigation, and negative publicity, including alleged class action suits challenging various managed care practices and suits seeking significant punitive damages awards. Past financial performance is not necessarily a reliable indicator of future performance and investors should not use historical performance to anticipate results or future period trends.

Introduction

Humana is one of the nation's largest publicly traded health services companies that facilitates the delivery of health care services through networks of providers to its approximately 5.4 million medical members. The Company's products are marketed primarily through health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs") that encourage or require the use of contracted providers. HMOs and PPOs control health care costs by various means, including pre-admission approval for hospital inpatient services, pre-authorization of outpatient surgical procedures and risk-sharing arrangements with providers. These providers may share medical cost risk or have other incentives to deliver quality medical services in a cost-effective manner. The Company also offers various specialty products to employers, including dental, group life and administrative services ("ASO") to those who self-insure their employee health plans. In total, the Company's products are licensed in 49 states, the District of Columbia and Puerto Rico, with approximately 19 percent of its membership in the state of Florida.

The Company is organized into two business units: the Health Plan segment and the Small Group segment. The Health Plan segment includes the Company's large group commercial (100 employees and over), Medicare, Medicaid, ASO, and military or TRICARE business. The Small Group segment includes small group commercial (under 100 employees) and specialty benefit lines, including dental, life and short-term disability. Results of each segment are measured based upon results of operations before income taxes. The Company allocates administrative expenses, interest income and interest expense, but no assets, to the segments. Members in the same geographic area that are served by the two segments generally utilize the same medical provider networks, enabling the Company to obtain more favorable contract terms with providers. As a result, the profitability of each segment is somewhat interdependent. In addition, premium revenue pricing to large group commercial employers has historically been more competitive than that to small group commercial employers, resulting in less favorable underwriting margins for the large group commercial line of business. Costs to distribute and administer products to small group commercial employers are higher compared to large group commercial employers resulting in small group's higher administrative expense ratio.

Recent Transactions

Divestitures

Effective July 1, 2000, the Company completed transactions to reinsure its Medicare supplement business and sell its North Florida Medicaid business. On April 10, 2000 and March 31, 2000, the Company completed the sale of its workers' compensation administrative services and run-off businesses, respectively. The Company recorded an estimated $118 million loss in 1999 related to these four transactions. There was no change in the estimated loss during 2000. Cash proceeds were $101 million ($32 million net of divested subsidiary's cash) for the nine months ended September 30, 2000. Revenue and pretax results associated with these four businesses for the quarters and nine months ended September 30, 2000 and 1999 were as follows (in millions):

	Quarters Ended		Nine Months Ended	
	2000	1999	2000	1999
Revenues	$ __	$ 55	$ 103	$ 165
Pretax results	$ __	$ (4)	$ (8)	$ (10)

Acquisitions

On August 17, 2000, the Company acquired Jacobson Management Group, Inc., a hospital in-patient management services firm for approximately $5 million in cash.

On June 9, 2000, the Company acquired American Physicians Life Insurance Company, an operating shell entity for the Company's e-business for approximately $7 million in cash.

On May 10, 2000, the Company acquired Wisconsin National Life Insurance Company, an operating shell entity for the Company's dental business for approximately $12 million in cash.

On January 31, 2000, the Company acquired Memorial Sisters of Charity Health Network ("MSCHN"), a Houston based health plan for approximately $50 million in cash.

On June 1, 1999, the Company reached an agreement with FPA Medical Management, Inc. ("FPA"), FPA's lenders and a federal bankruptcy court under which the Company acquired the operations of 50 medical centers from FPA for approximately $14 million in cash. The Company has subsequently transferred operating responsibility for all acquired FPA medical centers under long-term provider agreements.

The above acquisitions were accounted for under the purchase method of accounting. In connection with these acquisitions, the Company allocated the acquisition cost to net tangible and identifiable intangible assets based upon their fair value. Identifiable intangible assets primarily relate to the cost of the acquired licenses and provider contracts. Any remaining value not assigned to net tangible or identifiable intangible assets was then allocated to cost in excess of net assets acquired, or goodwill. Goodwill and identifiable intangible assets acquired, recorded in connection with the acquisitions preliminarily, was $71 million and $17 million for the nine months ended September 30, 2000 and 1999, respectively. The identifiable intangible assets are being amortized over periods ranging from five to 20 years while goodwill is being amortized over periods ranging from six to 20 years.

First Quarter 1999 Additional Medical Expense and Tangible Asset Gain

During the first quarter of 1999, the Company recorded $90 million of additional medical expense for premium deficiency, reserve strengthening and provider costs. As a result of management's assessment of the profitability of its contracts for providing health care services to its members in certain markets, the Company recorded a provision for probable future losses (premium deficiency) of $50 million. Ineffective provider risk-sharing contracts and the impact of the March 31, 1999 HCA - The Healthcare Company, formerly Columbia/HCA Healthcare Corporation ("HCA") hospital agreement in Florida on current and projected future medical costs contributed to the premium deficiency. The beneficial effect from losses charged to the premium deficiency liability was $14 million and $32

million for the quarter and nine months ended September 30, 1999, respectively. Remaining liabilities related to premium deficiency provisions recorded in 1998 and 1999 were exhausted as of December 31, 1999 and, therefore, there was no beneficial effect from losses charged to these liabilities in the first nine months of 2000. Because the majority of the Company's customers' contracts renew annually, the Company does not anticipate the need for a premium deficiency charged to earnings in 2000, absent unanticipated adverse events or changes in circumstances.

Prior period adverse claims development primarily in the Company's PPO and Medicare products initially identified during an analysis of February and March 1999 medical claims resulted in a $35 million reserve strengthening. The Company releases or strengthens medical claims reserves when favorable or adverse development in prior periods exceed actuarial margins existing in the reserves. In addition, the Company paid HCA $5 million to settle certain contractual issues associated with the March 31, 1999 hospital agreement in Florida.

Also during the first quarter of 1999, the Company recorded a $12 million gain on the sale of a tangible asset which has been included in interest and other income in the accompanying Condensed Consolidated Statements of Income.

Comparison of Results of Operations

In order to enhance comparability as well as to provide a baseline against which historical and prospective periods can be measured, the following discussion comparing results for the nine months ended September 30, 2000 (the "2000 period") and 1999 (the "1999 period"), excludes the previously described medical expenses and tangible asset gain recorded in the 1999 period, but does include the beneficial effect related to premium deficiency in operating results for the period shown. There are no excluded items associated with the 2000 period, or for the quarters ended September 30, 2000 (the "2000 quarter") and September 30, 1999 (the "1999 quarter"). Results reported in the Condensed Consolidated Statements of Income ("Reported Results") reconcile to the results contained in the following discussion ("Adjusted Results") for the 1999 period as follows (in millions, except per share data):

	Nine Months Ended September 30, 1999		
	Reported Results	Excluded Items (a)	Adjusted Results
Condensed Consolidated Statement of Income caption items that are adjusted:			
Interest and other income	$ 123	$ (12)	$ 111
Total revenues	7,539	(12)	7,527
Operating expenses:			
Medical	6,378	(90)	6,288
Total operating expenses	7,461	(90)	7,371
Income before income taxes	53	78	131
Net income	$ 34	$ 49	$ 83
Basic earnings per common share	$ 0.20	$ 0.30	$ 0.50
Diluted earnings per common share	$ 0.20	$ 0.30	$ 0.50

	Nine Months Ended September 30, 1999		
	Reported Ratios	Ratio Effect of Excluded Items (a)	Adjusted Ratios
Medical expense ratios:			
Health Plan	87.7%	(1.3)%	86.4%
Small Group	82.2%	(1.0)%	81.2%
Totals	86.0%	(1.2)%	84.8%

(a) The item excluded from interest and other income is the $12 million gain on sale of a tangible asset. The items excluded from 1999 medical expenses are the $50 million premium deficiency, $35 million reserve strengthening and $5 million of provider costs.

Quarters Ended September 30, 2000 and 1999

During the 2000 quarter, the Company continued its progress to eliminate non-core businesses and position core businesses for growth. Non-core businesses, which currently represent 6.7 percent of total medical membership, are those operations or products that are both unprofitable and for which the Company sees no long-term opportunity. Core businesses include those businesses that have critical mass, growth potential, a history of steady performance and are either profitable or have the potential to be profitable in the near term. Steps taken to reduce the Company's non-core businesses include announcing the exit of 45 Medicare counties effective January 1, 2001 and the exit of 17 small group commercial markets, affecting approximately 80,000 and 25,000 remaining members as of September 30, 2000, respectively. The Company has also completed transactions to reinsure its Medicare supplement business and sell its North Florida Medicaid business affecting 39,000 and 96,000 non-core members, respectively. Consolidated and segment results discussion follows.

The Company's premium revenues increased 2.4 percent to $2.6 billion for the 2000 quarter, compared to $2.5 billion for the 1999 quarter primarily driven by increases in premium yields partially offset by a decline in membership. Commercial and Medicare HMO premium yields averaged 13.5 and 5.5 percent, respectively, in the 2000 quarter versus 6.7 and 4.0 percent, respectively, in the 1999 quarter. Due to the impact these premium increases had on commercial member retention, total medical membership declined 574,400 members or 9.5 percent from the 1999 quarter.

The Company's medical expense ratio for the 2000 quarter was 84.2 percent, compared to 85.0 percent for the 1999 quarter. Improving commercial claims experience from lower pharmacy cost trends and the reduction of higher cost, non-core membership was partially offset by higher Medicare utilization in the 45 Medicare counties the Company will be exiting January 1, 2001. Commercial pharmacy cost trends improved to 6.7 percent compared to 20.4 percent from the conversion of members to a three-tier pharmacy benefit plan. During the 1999 quarter, the Company recorded an $8 million adjustment related to favorable development in the Company's workers' compensation liabilities.

The administrative expense ratio for the 2000 quarter was 15.5 percent, compared to 14.6 percent in the 1999 quarter. Contributing to this increase were planned investments in infrastructure and technology initiatives, a lower ratio of members to employees and an increase in amortization expense from the change to a 20 year life for goodwill previously amortized over 40 years.

Investment income totaled $26 million and $29 million for the 2000 and 1999 quarters, respectively. This decrease resulted from a lower average invested balance. Interest expense was unchanged comparing the 2000 and 1999 quarters as lower average borrowings were offset by higher interest rates.

The provision for income taxes in the 2000 quarter is provided for at the anticipated effective tax rate of 21 percent for the year. This lower effective tax rate, in comparison to the 1999 quarter of approximately 35 percent, is the result of recognizing the benefit of anticipated capital gains for which the Company has available capital loss carryforwards created from the sale of the workers' compensation business.

Pretax income totaled $29 million for the 2000 quarter, compared to $34 million for the 1999 quarter. Net income was $23 million, or $0.14 per diluted share in the 2000 quarter, compared to $22 million, or $0.13 per diluted share in the 1999 quarter. Excluding favorable workers' compensation and premium deficiency reserve adjustments, earnings would have been $0.05 per diluted share in the 1999 quarter.

Business Segment Information for the Quarters Ended September 30, 2000 and 1999

Certain financial data for the Company's two segments for the 2000 quarter and 1999 quarter is as follows (in millions):

	Quarters Ended September 30,	
	2000	1999
Premium revenues:		
Health Plan	$ 1,823	$ 1,740
Small Group	765	787
	$ 2,588	$ 2,527
Income before income taxes:		
Health Plan	$ 11	$ 32
Small Group	18	2
	$ 29	$ 34
Medical expense ratios:		
Health Plan	86.4%	86.5%
Small Group	79.0%	81.7%

	84.2%	85.0%
Administrative expense ratios:		
Health Plan	13.8%	12.5%
Small Group	19.6%	19.1%
	15.5%	14.6%

Health Plan

The Health Plan segment's premium revenues increased 4.8 percent to $1.8 billion for the 2000 quarter primarily due to increases in premium yields. Large group commercial premiums increased 1.4 percent to $589 million during the 2000 quarter from $581 million in the 1999 quarter. This increase was due to higher premium yields ranging from 10 to 11 percent during the 2000 quarter compared to a range of five to six percent for the 1999 quarter, reflecting the Company's improved pricing. Large group commercial membership fell 10.2 percent to 1,278,500 from the 1999 quarter as attrition from pricing actions and the termination of the State of Texas account was partially offset by acquired membership from the MSCHN acquisition. Medicare HMO premiums increased 12.2 percent to $828 million in the 2000 quarter compared to $738 million in the 1999 quarter due to higher premium yields, the MSCHN acquisition and increased membership. Premium yield increased to 5.5 percent in the 2000 quarter compared to 4.0 percent in the 1999 quarter due to the implementation of additional member premiums for many of the Company's Medicare members and improvement in the mix of members in markets with higher HCFA reimbursement rates. Medicare membership increased 23,800 members, or 4.9 percent, despite the exit of 30 Medicare counties on January 1, 2000. This increase was the result of strong sales initiatives in certain markets coupled with the acquired membership from the MSCHN acquisition. Medicaid premiums decreased $2 million or 1.3 percent from the 1999 quarter as the effect from the sale of its North Florida Medicaid business during the second quarter of 2000 was offset by the acquired MSCHN membership. The recent reinsurance of the Medicare supplement membership reduced Health Plan premiums $15 million during the 2000 quarter.

The Health Plan segment's medical expense ratio for the 2000 quarter was 86.4 percent, decreasing 10 basis points from 86.5 percent in the 1999 quarter. Improving large group pharmacy cost trends and the reduction of higher cost, non-core membership was partially offset by higher Medicare utilization in the 45 Medicare counties the Company will be exiting January 1, 2001. Large group commercial pharmacy cost trends improved to 6.0 percent compared to 19.6 percent from the conversion of members to a three-tier pharmacy benefit plan. During the 2000 quarter, the Company completed transactions to reinsure its Medicare supplement business, sell its North Florida Medicaid business and terminate the State of Texas account. These transactions eliminated approximately 182,000 higher cost members. During the 1999 quarter, the Company recorded an $8 million adjustment related to favorable development in the Company's workers' compensation liabilities.

The administrative expense ratio for the 2000 quarter increased to 13.8 percent compared to 12.5 percent for the 1999 quarter. This increase was the result of continued planned investments in infrastructure and technology initiatives, a lower ratio of members to employees and an increase in amortization expense from the change to a 20 year life for goodwill previously amortized over 40 years.

Pretax income totaled $11 million for the 2000 quarter, compared to $32 million for the 1999 quarter. Excluding favorable workers' compensation and premium deficiency reserve adjustments, pretax income would have been $14 million for the 1999 quarter.

Small Group

The Small Group segment's premium revenues decreased 2.8 percent to $765 million for the 2000 quarter from $787 million for the 1999 quarter. This decrease was due to a reduction in membership offset by higher premium yields ranging from 16 to 17 percent in the 2000 quarter compared to seven to eight percent in the 1999 quarter. During the 2000 quarter, the Company delivered accelerated rate increases in Colorado and Texas where higher than expected medical cost trends had been experienced. Attrition from rate increases and the announced exit of 17 small group commercial markets resulted in a reduction in small group commercial membership of 345,700 members or 20.3 percent from the 1999 quarter.

The Small Group segment's medical expense ratio for the 2000 quarter was 79.0 percent, decreasing from 81.7 percent for the 1999 quarter. This decrease was the result of lower small group commercial cost trends which were in the nine to 10 percent range in the 2000 quarter compared to the 10 to 11 percent range for the 1999 quarter. This improvement is primarily attributable to declining pharmacy cost trends from 22.4 percent to 6.1 percent, corrective pricing related to the higher cost open access product and membership reduction in the Company's 17 small group commercial exit markets.

The Small Group segment's administrative expense ratio increased to 19.6 percent compared to 19.1 percent for the 1999 quarter. This increase was the result of continued planned investments in infrastructure and technology initiatives, a lower ratio of members to employees and an increase in amortization expense from the change to a 20 year life for goodwill previously amortized over 40 years.

Pretax income totaled $18 million for the 2000 quarter compared to $2 million for the 1999 quarter. Excluding favorable premium deficiency reserve adjustments, pretax loss would have been $2 million for the 1999 quarter. This earnings increase is attributable to the Company's pricing actions and the continued improvement in pharmacy cost trends offset by increased administrative expenses.

Nine Months Ended September 30, 2000 and 1999

The Company's premium revenues increased 6.1 percent to $7.9 billion for the 2000 period compared to $7.4 billion for the 1999 period. Higher premium revenues in all lines of business resulted from increased premium yields as a result of pricing actions implemented by the Company during the 2000 period, partially offset by membership reduction as a result of these price increases.

The Company's medical expense ratio for the 2000 period was 84.7 percent compared to an adjusted medical expense ratio of 84.8 percent for the 1999 period. Improving commercial claims experience from lower pharmacy cost trends and the reduction of higher cost, non-core membership was partially offset by higher Medicare utilization in the 45 Medicare counties the Company will be exiting. Commercial pharmacy cost trends improved to 6.6 percent compared to 20.0 percent from the conversion of members to a three-tier pharmacy benefit plan. During the 1999 period, the Company recorded a $23 million adjustment related to favorable development in the Company's workers' compensation liabilities and a $6 million adjustment to premium deficiency reserves from the decision to maintain a presence in Puerto Rico with a favorable two year contract extension.

The administrative expense ratio was 15.1 percent and 14.6 percent for the 2000 and 1999 periods, respectively. Contributing to this increase were planned investments in infrastructure and technology initiatives, a lower ratio of members to employees and an increase in amortization expense from the change to a 20 year life for goodwill previously amortized over 40 years.

Investment income totaled $82 million in the 2000 period, compared to $103 million in the 1999 period. This decrease is primarily attributable to investment gains realized in the 1999 period and a lower average invested balance. Interest expense declined $3 million during the 2000 period as a result of lower average borrowings.

The provision for income taxes in the 2000 period is provided for at the anticipated effective tax rate of 21 percent for the year. This lower effective tax rate, in comparison to the 1999 period of approximately 35 percent, is the result of recognizing the benefit of anticipated capital gains for which the Company has available capital loss carryforwards created from the sale of the workers' compensation business.

Pretax income totaled $80 million for the 2000 period, compared to adjusted pretax income of $131 million for the 1999 period. Net income was $63 million, or $0.38 per diluted share, in the 2000 period compared to adjusted net income of $83 million, or $0.50 per diluted share, in the 1999 period. Excluding the beneficial effects of previously established premium deficiency and severance charges, favorable workers' compensation liability development and non-recurring investment gains, earnings per diluted share would have been $0.22 in the 1999 period.

Business Segment Information for the Nine Months Ended September 30, 2000 and 1999

Certain financial data for the Company's two segments for the 2000 period and 1999 period is as follows (in millions):

	Nine Months Ended	
	2000	1999(a)
Premium revenues:		
Health Plan	$ 5,516	$ 5,120
Small Group	2,349	2,296
	$ 7,865	$ 7,416
Adjusted income before income taxes:		
Health Plan	$ 55	$ 106
Small Group	25	25
	$ 80	$ 131
Adjusted medical expense ratios:		
Health Plan	86.7%	86.4%
Small Group	80.2%	81.2%
	84.7%	84.8%
Administrative expense ratios:		
Health Plan	13.2%	12.7%
Small Group	19.6%	19.0%
	15.1%	14.6%

(a) Excludes $90 million ($66 million Health Plan and $24 million Small Group) of medical expense related to premium deficiency, reserve strengthening and provider costs and $12 million ($7 million Health Plan and $5 million Small Group) gain on the sale of a tangible asset.

Health Plan

The Health Plan segment's premium revenues increased 7.7 percent to $5.5 billion for the 2000 period from $5.1 billion for the 1999 period primarily due to increases in premium yields. Large group commercial premiums increased 1.8 percent to $1.8 billion during the 2000 period. This increase was due to higher premium yields, reflecting the Company's improved pricing. Large group commercial membership fell as attrition from pricing actions was partially offset by acquired membership from the MSCHN acquisition. Medicare HMO premiums increased 13.0 percent to $2.5 billion in the 2000 period from $2.2 billion in the 1999 period due to higher premium yields, the MSCHN acquisition and increased membership. Medicare premium yields increased due to improvement in the mix of members in markets with higher HCFA reimbursement rates and the implementation of additional member premiums for many of the Company's Medicare members. Medicare membership increased despite the exit of 30 Medicare counties on January 1, 2000. This membership increase was the result of strong sales initiatives in certain markets coupled with the acquired membership from the MSCHN acquisition. Medicaid premiums increased $64 million or 14.1 percent from the 1999 period primarily from the MSCHN acquisition and TRICARE premiums increased $33 million or 5.2 percent from the 1999 period resulting from an annual rate increase and other favorable contractual adjustments.

The Health Plan segment's medical expense ratio for the 2000 period was 86.7 percent, increasing 30 basis points from an adjusted 86.4 percent in the 1999 period. Higher than expected Medicare utilization in the 45 Medicare counties the Company will be exiting January 1, 2001 was partially offset by improving large group commercial pharmacy cost trends and the reduction of higher cost, non-core membership. Large group commercial pharmacy cost trends improved to 6.8 percent compared to 18.5 percent from the conversion of members to a three-tier pharmacy benefit plan. During the 1999 period, the Company recorded a $23 million adjustment related to favorable development in the Company's workers' compensation liabilities and a $6 million adjustment to premium deficiency reserves from the decision to maintain a presence in Puerto Rico with a favorable two year contract extension.

The administrative expense ratio for the 2000 period increased to 13.2 percent compared to 12.7 percent for the 1999 period. Contributing to this increase were planned investments in infrastructure and technology, a lower ratio of members to employees and an increase in amortization expense from the change to a 20 year life for goodwill previously amortized over 40 years.

Pretax income totaled $55 million for the 2000 period compared to adjusted pretax income of $106 million for the 1999 period. Excluding the beneficial effects of previously established premium deficiency and severance charges, favorable workers' compensation liability development and non-recurring investment gains, pretax income would have been $39 million in the 1999 period. Improving large group commercial pharmacy cost trends and the reduction of high cost, non-core membership was offset by higher utilization in the 45 Medicare exit counties and increased administrative costs.

Small Group

The Small Group segment's premium revenues increased 2.3 percent to $2.3 billion for the 2000 period. This increase was due to higher premium yields reflecting the Company's improved pricing, partially offset by reduced membership in the small group commercial product. Small group commercial membership declined 345,700 members or 20.3 percent from the 1999 period due to attrition in reaction to these price increases.

The Small Group segment's medical expense ratio for the 2000 period was 80.2 percent, decreasing from an adjusted medical expense ratio of 81.2 percent for the 1999 period. This improvement is primarily attributable to declining pharmacy cost trends from 24.5 percent to 6.3 percent, corrective pricing related to the higher cost open access product and membership reduction in the Company's 17 small group commercial exit markets. The improvement in the pharmacy cost trend resulted from the progressive implementation of the three-tier pharmacy benefit.

The Small Group segment's administrative expense ratio increased to 19.6 percent compared to 19.0 percent for the 1999 period. This increase was the result of continued planned investments in infrastructure and technology, a lower ratio of members to employees and an increase in amortization expense from the change to a 20 year life for goodwill previously amortized over 40 years.

Pretax income totaled $25 million for the 2000 period compared to an adjusted amount of $25 million for the 1999 period. Excluding the beneficial effects of previously established premium deficiency and non-recurring investment gains, adjusted pretax income would have been $18 million for the 1999 period. This earnings increase is attributable to the Company's pricing actions and the continued improvement in pharmacy cost trends offset by increased administrative expenses.

Liquidity and Capital Resources

Pro forma cash flows for the nine months ended September 30, 2000 and 1999, excluding the effects of the timing of Medicare premium receipts and the previously funded workers' compensation claim payments is as follows (in millions):

	Nine Months Ended	
	2000	1999
Cash used in operating activities	$ (239)	$ (241)
Timing of Medicare premium receipts	251	235
Workers' compensation claim payments	30	92
Pro forma cash flows provided by operating activities	$ 42	$ 86

2000 pro forma operating cash flow was impacted primarily by a reduction in claims inventory and run-off claim payments related to terminated membership. Partially mitigating these items was lower workers' compensation claim payments from the sale of this run-off business.

The Company used net proceeds from divestitures of $101 million ($32 million net of divested subsidiary's cash) to reduce debt and reinvest in infrastructure and information technology. The divested businesses included total assets of $625 million, primarily consisting of marketable securities and reinsurance recoverables and total liabilities of $431 million, primarily consisting of workers' compensation claim liabilities. In July 2000, the Company paid $10 million to reinsure its Medicare supplement business and $13 million to transfer claim liabilities to the reinsurer.

As of September 30, 2000, the Company has repurchased approximately 3.3 million of its common shares for a total cost of $26 million, primarily from borrowed funds.

The Company's subsidiaries operate in states that require minimum levels of equity and regulate the payment of dividends to the parent company. As a result, the Company's ability to use operating subsidiaries' cash flows is restricted to the extent of the subsidiaries' ability to obtain regulatory approval to pay dividends.

The National Association of Insurance Commissioners has recommended that states adopt a risk-based capital ("RBC") formula for companies established as HMO entities, similar to the current requirement for insurance companies. The RBC provisions may require new minimum capital and surplus levels for some of the Company's HMO subsidiaries. Many states have not yet determined when they will adopt the RBC formula or if they will allow a phase-in to the required levels of capital and surplus. If the states in which the Company conducts business adopt the proposed RBC formula, without a phase-in provision, the Company estimates it would be required to fund additional capital into certain subsidiaries of approximately $80 million. After this capital infusion, the Company would have approximately $120 million of capital and surplus above the required RBC level considering all subsidiaries on a combined basis.

The Company maintains a revolving credit agreement ("Credit Agreement") which provides a line of credit of up to $1.0 billion and expires in August 2002. Principal amounts outstanding under the Credit Agreement bear interest at either a fixed rate or a floating rate, ranging from LIBOR plus 35 basis points to LIBOR plus 80 basis points, depending on the Company's credit ratings. The Credit Agreement contains customary covenants and events of default including, but not limited to, financial tests for interest coverage and leverage. The Company was in compliance with all covenants at September 30, 2000. The Company also maintains and issues short-term debt securities under a commercial paper program, which is backed by the Credit Agreement. All borrowings outstanding at September 30, 2000 were issued under the commercial paper program. The average interest rate on commercial paper borrowings was 7.1 percent and 6.7 percent for the quarter and nine months ended September 30, 2000, respectively.

Management believes that funds from future operating cash flows and funds available under the existing Credit Agreement and commercial paper program are sufficient to meet future liquidity needs. Management also believes the aforementioned sources of funds are adequate to allow the Company to fund capital requirements.

The Company's ongoing capital expenditures relate primarily to information systems and administrative facilities necessary for activities such as claims processing, billing and collections, medical utilization review and customer service. Planned capital spending for the remainder of 2000 will approximate $30 million to $35 million primarily for the funding of the Company's technology initiatives and expansion and improvement of its administrative facilities.

Impact of Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). In general, SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities in the balance sheet at their fair value, and sets forth the manner in which gains or losses thereon are to be recorded. The treatment of such gains or losses is dependent upon the type of exposure, if any, for which the derivative is designated as a hedge. This standard is effective for the Company's financial statements beginning January 1, 2001, with early adoption permitted. Management of the Company anticipates that the adoption of SFAS No. 133 on January 1, 2001 will not have a material impact on the Company's financial position, results of operations or cash flows.

Quarterly Membership	2000	1999

Health Plan:		
Large group commercial members at:		
March 31	1,409,000	1,495,500
June 30	1,369,000	1,478,300
September 30	1,278,500	1,424,400
December 31		1,420,500
Medicare HMO members at:		
March 31	518,000	480,700
June 30	522,100	484,800
September 30	513,100	489,300
December 31		488,500
TRICARE members at:		
March 31	1,060,000	1,085,700
June 30	1,049,100	1,064,600
September 30	1,063,200	1,065,500
December 31		1,058,000
Administrative Services members at:		
March 31	657,000	617,900
June 30	655,700	636,700
September 30	647,300	641,000
December 31		648,000
Medicaid and other members at:		
March 31	697,400	704,300
June 30	713,900	707,200
September 30	584,400	695,000
December 31		661,100
Total Health Plan members at:		
March 31	4,341,400	4,384,100
June 30	4,309,800	4,371,600
September 30	4,086,500	4,315,200
December 31		4,276,100
Small Group:		
Small group commercial members at:		
March 31	1,568,500	1,676,200
June 30	1,475,500	1,695,700
September 30	1,361,100	1,706,800
December 31		1,663,100
Total medical members at:		
March 31	5,909,900	6,060,300
June 30	5,785,300	6,067,300
September 30	5,447,600	6,022,000
December 31		5,939,200
Specialty members at:		
March 31	2,980,100	2,771,900
June 30	2,491,500	2,837,600
September 30	2,394,500	2,890,100
December 31		2,961,300

Supplemental Consolidated Statement of Quarterly Operations (Unaudited)
(Dollars in millions, except per share results)

	2000			
	First	Second	Third	Total
Revenues:				
Premiums by segment:				
Health Plan	$ 1,806	$ 1,887	$ 1,823	$ 5,516
Small Group	805	779	765	2,349
Total premiums	2,611	2,666	2,588	7,865
Interest and other income	31	30	28	89
Total revenues	2,642	2,696	2,616	7,954
Operating expenses:				
Medical	2,220	2,265	2,179	6,664

Selling, general and administrative	353	363	363	1,079
Depreciation and amortization	34	37	38	109
Total operating expenses	2,607	2,665	2,580	7,852
Income from operations	35	31	36	102
Interest expense	8	7	7	22
Income before income taxes	27	24	29	80
Provision for income taxes	6	5	6	17
Net income	$ 21	$ 19	$ 23	$ 63
Basic earnings per common share	$ 0.13	$ 0.11	$ 0.14	$ 0.38
Diluted earnings per common share	$ 0.13	$ 0.11	$ 0.14	$ 0.38
Medical expense ratios:				
Health Plan	86.9%	86.7%	86.4%	86.7%
Small Group	80.7%	80.7%	79.0%	80.2%
Totals	85.0%	85.0%	84.2%	84.7%
Administrative expense ratios:				
Health Plan	12.9%	12.9%	13.8%	13.2%
Small Group	19.1%	20.0%	19.6%	19.6%
Totals	14.8%	15.0%	15.5%	15.1%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued
Humana Inc.

Supplemental Consolidated Statement of Quarterly Operations (Unaudited)
(Dollars in millions, except per share results)

	1999				
	First(a)	Second	Third	Fourth(b)	Total
Revenues:					
Premiums by segment:					
Health Plan	$ 1,682	$ 1,698	$ 1,740	$ 1,727	$ 6,847
Small Group	746	763	787	816	3,112
Total premiums	2,428	2,461	2,527	2,543	9.959
Interest and other income	49	44	30	31	154
Total revenues	2,477	2,505	2,557	2,574	10,113
Operating expenses:					
Medical	2,136	2,094	2,148	2,154	8,532
Selling, general and administrative	325	329	338	376	1,368
Depreciation and amortization	31	30	30	33	124
Asset write-downs and other expenses				460	460
Total operating expenses	2,492	2,453	2,516	3,023	10,484
(Loss) income from operations	(15)	52	41	(449)	(371)
Interest expense	10	8	7	8	33
(Loss) income before income taxes	(25)	44	34	(457)	(404)
(Benefit) provision for income taxes	(9)	16	12	(41)	(22)
Net (loss) income	$ (16)	$ 28	$ 22	$ (416)	$ (382)
Basic (loss) earnings per common share	$ (0.10)	$ 0.17	$ 0.13	$ (2.48)	$ (2.28)
Diluted (loss) earnings per common share	$ (0.10)	$ 0.17	$ 0.13	$ (2.48)	$ (2.28)
Medical expense ratios:					
Health Plan	90.0%	86.6%	86.5%	86.5%	87.4%
Small Group	83.4%	81.7%	81.7%	81.0%	81.9%
Totals	88.0%	85.1%	85.0%	84.8%	85.7%
Administrative expense ratios:					
Health Plan	12.8%	12.7%	12.5%	14.1%	13.0%
Small Group	18.9%	18.9%	19.1%	20.1%	19.3%

Totals	14.7%	14.6%	14.6%	16.0%	15.0%

(a) Includes $90 million of 1999 medical expense related to premium deficiency, reserve strengthening and provider costs and $12 million gain on sale of a tangible asset.

(b) Includes expenses of $495 million primarily related to goodwill write-down, losses on non-core asset sales and professional liability reserve strengthening.

Item 3. Quantitative and Qualitative Disclosure about Market Risk
Humana Inc.

Since the date of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, no material changes have occurred in the Company's exposure to market risk associated with the Company's investments in market risk sensitive financial instruments, as set forth in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in such Form 10-K.

Part II: Other Information
Humana Inc.

Item 1: Legal Proceedings

Managed Care Industry Litigation

On August 17, 2000, oral argument was heard before the United States District Court for the Southern District of Florida ("Court") on the motion of Humana to dismiss the consolidated complaint filed on June 23, 2000, in the matter of *In Re Humana Managed Care Litigation* and captioned *Price v. Humana Inc.* (the "Subscriber Track" case). Two days earlier, on August 15, 2000, the plaintiffs filed their Amended Motion for Class Certification, seeking a class consisting of all members of Humana medical plans, excluding Medicare and Medicaid plans, for the period from 1990 to 1999. Humana is scheduled to file its Opposition to Plaintiffs' Motion for Class certification on November 15, 2000.

In the meantime, on October 23, 2000, the Judicial Panel on Multi District Litigation ordered that similar litigation against other managed care organizations should be consolidated with the Humana litigation in the Southern District of Florida. The Panel's initial consolidation order included cases brought against six other managed care companies on behalf of members (so-called "Subscriber Track" cases) and litigation brought by statewide purported classes of providers against a number of managed care organizations (not including Humana) under Georgia prompt payment statutes. In addition, the Panel's order left in the Southern District of Florida a case filed against Humana and seven other companies that was filed on behalf of a nationwide class of (the so-called "Provider Track" action). In the months to come, other managed care class action cases pending around the country against defendants other than Humana may be transferred to the Southern District of Florida as well.

In the Provider Track action, captioned *Shane v. Humana et al.*, the plaintiffs filed an amended consolidated complaint on August 11, 2000. Humana filed a motion to dismiss the complaint on September 8, 2000, and the seven other defendants have moved to dismiss the complaint and, in some cases, to compel arbitration of the provider claims. Oral argument on most of these motions, including Humana's motion to dismiss, was heard before the Court on October 26, 2000. On October 27, 2000, the Provider Track plaintiffs filed a motion for class certification. Humana is scheduled to file opposition papers to the plaintiffs' class certification motion on November 17, 2000.

Chipps v. Humana Health Insurance Company of Florida, Inc.

In this case, in which a jury in Palm Beach County, Florida, issued an approximately $80 million verdict in a case arising from removal of an insured from a special case management program, the United States District Court for the Southern District of Florida remanded the case to state court, following removal to federal court by a liability insurance carrier, ACE Bermuda. Humana's appeal of the jury verdict continues before the Fourth District Court of Appeals in Florida.

The Company believes the above actions are without merit and intends to pursue the defense of these actions vigorously.

Securities Litigation

On November 7, 2000, the United States District Court for the Western District of Kentucky issued a Memorandum Opinion and Order dismissing the action styled *In re Humana Inc. Securities Litigation*. That action had involved allegations that certain misleading statements had been made with regard to the impact of negotiations over renewal of the Company's contract with a major provider in 1999.

Government Audits and Other

The Florida Attorney General initiated an investigation in July, 2000, apparently relating to some of the same matters as are involved in the purported class action lawsuits described above (See *Managed Care Industry Litigation*).

Damages for claims for personal injuries and medical benefit denials are usual in the Company's business. Personal injury and medical benefit denial claims are covered by insurance from the Company's wholly owned captive insurance subsidiary and excess carriers, except to the extent that claimants seek punitive damages, which may not be covered by insurance if awarded in states in which insurance coverage for punitive damages is not permitted. 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. In addition, insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

Due to the nature of its business, the Company is or may become subject to pending or threatened litigation or other legal actions relating to the failure to provide or pay for health care or other benefits, poor outcomes for care delivered or arranged under the Company's programs, nonacceptance or termination of providers, failure to return withheld amounts from provider compensation, and failure to disclose network discounts and various provider payment arrangements and claims relating to contract performance. Recent court decisions and legislative activity may increase our exposure for any of these types of claims.

Management does not believe that any pending or threatened legal actions against the Company or audits by agencies will have a material adverse effect on the Company's financial position or results of operations or cash flows. However, the likelihood or outcome of current or future suits cannot be accurately predicted, and they could adversely affect the Company's financial position, results of operations or cash flows.

Item 2: Changes in Securities

None.

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 and Reports on Form 8-K

(a) Exhibit Index
Exhibit 10 Employment Agreement (filed electronically).
Exhibit 27 Financial Data Schedule (filed electronically).

(b) Other than the Form 8-K filed on July 14, 2000 and referenced in the June 30, 2000 Form 10-Q, there were no other reports filed on Form 8-K.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HUMANA INC.
(Registrant)

Date: November 14, 2000

By: /s/James E. Murray
James E. Murray
Chief Operating Officer - Health
Plan Division and
Chief Financial Officer
(Principal Accounting Officer)

Date: November 14, 2000

By: /s/Arthur P. Hipwell

Arthur P. Hipwell
Senior Vice President and
General Counsel

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT made as of September 13, 2000, by and between HUMANA INC. (hereinafter "Company"), a Delaware corporation having its principal place of business in Louisville, Kentucky, and Michael B. McCallister (hereinafter "Employee"):

WITNESSETH:

WHEREAS, Employee desires to render faithful and efficient service to the Company; and

WHEREAS, the Company desires to receive the benefit of Employee's service; and

WHEREAS, both Company and Employee desire to formalize the conditions of Employee's employment by written agreement;

NOW, THEREFORE, in consideration of the premises the mutual covenants hereinafter set forth, the parties agree as follows:

1. Office. The Company hereby employs Employee as President and Chief Executive Officer and Employee hereby agrees to serve the Company in such capacity.

2. Term of Employment. Employee's employment shall be for the "Employment Period" with the initial term commencing on the date hereof, and extending through December 31, 2000. The initial term shall be automatically renewed and extended upon the expiration thereof for successive periods of one (1) year until such time as the Employment Period shall terminate pursuant to the terms of this Agreement, or until the Company on the one hand, or Employee on the other hand, shall terminate the Employment Period by giving written notice to the other party on or before sixty (60) days prior to the expiration date of the initial or any renewal term. The renewal and extension of this Agreement shall also be referred to as the "Employment Period." The effective date of Employee's termination of employment for whatever reason under this Agreement shall be the "Termination Date."

3. Responsibilities. During the Employment Period, Employee shall devote his entire business time and attention, except during reasonable vacation periods, to, and exert his best efforts to promote, the affairs of the Company, and shall render such services to the Company as may be required by the Board of Directors of the Company ("Board") consistent with his employment as Chief Executive Officer. Nothing herein contained shall preclude service by Employee on a reasonable number of boards of directors or trustees of other entities not engaged in any business competitive with the business of the Company, provided that Employee shall receive approval for any such board service in advance from the Company's Board.

4. Incapacity. If, during the Employment Period, Employee should be prevented from performing his duties or fulfilling his responsibilities by reason of any incapacity or disability for a continuous period of six (6) months, then the Company's Board, in its sole and absolute discretion, may, based on the opinion of a qualified physician, consider such incapacity or disability to be total and may on ninety (90) days written notice to Employee terminate the Employment Period. Benefits and payments shall be made under this Agreement following incapacity in accordance with Section 8(a).

5. Death. The Employment Period shall automatically terminate upon the death of Employee, and payments will be made to the Employee's estate in accordance with Section 8(a).

6. Compensation. During the Employment Period, Employee shall (i) receive a base salary (hereinafter "Annual Base Salary") that shall be an annual amount of not less than Six Hundred

Fifty Thousand Dollars ($650,000) payable in accordance with the payroll practices of the Company, and shall (ii) participate in an incentive plan providing for a target incentive compensation amount of not less than one hundred percent twenty-five (125%) of his Annual Base Salary.

7. Benefit Plans and Programs. During the Employment Period, Employee shall be eligible for participation in all benefit plans and programs, including those for executive employees, made available by the Company to its respective employees.

8. Severance Payments.

a) In the event that Employee's employment is terminated by (i) the Company while this Agreement is in effect without Good Cause as defined in Sections 8(c)(1), (2) or (3) hereof, (ii) by the Company for Good Cause as defined in Section 8(c)(4) hereof, (iii) because the Company terminates the Employment Period pursuant to Section 2 of this Employment Agreement, (iv) by reason of incapacity or disability in accordance with Section 4, or (v) by reason of death in accordance with Section 5:

(1) The Company shall pay to Employee or his estate, no later than thirty (30) calendar days after such Termination Date, an amount equal to any unpaid current Annual Base Salary accrued through the Termination Date, his bonus, calculated at one hundred percent (100%) of his Annual Base Salary prorated for the current fiscal year through the Termination Date, plus one (1) times the sum of his then current Annual Base Salary and bonus, calculated at one hundred percent (100%) of his Annual Base Salary. The Company shall continue to keep in full force and effect all plans or policies of medical, accident and life insurance benefits with respect to Employee and his dependents with the same level of coverage available to employees under the terms of those employee benefit plans for a period of twelve (12) months, upon the same terms, costs and otherwise to the same extent as such plans are in effect for employees of the Company who were similarly situated to Employee as of the Termination Date.

(2) Any of the restricted shares awarded to Employee on September 9, 1998 but which have not yet vested or been forfeited shall become vested and non-forfeitable as of the Termination Date.

(3) To the extent stock options granted to Employee have not become fully vested and exercisable as of the Termination Date, such options shall become fully vested and all vested stock options shall be exercisable until the earlier of (i) two (2) years commencing on the Termination Date, or (ii) the original term of the option grant.

b) In the event that Employee's employment is terminated by the Company for Good Cause as defined in Sections 8(c)(1), (2), (3):

(1) The Company shall pay to Employee, no later than thirty (30) calendar days after the Termination Date, an amount equal to his then current Annual Base Salary accrued but unpaid through the Termination Date; and Employee shall have a period of ninety (90) days after such Termination Date in which to exercise any exercisable vested stock options, subject to the provisions of any applicable stock option agreement.

(2) Any restricted shares or stock options previously granted but still subject to restriction or unvested at the Termination Date shall be forfeited.

c) Good Cause shall mean the Company's Board has determined in good faith, without being bound by the Company's progressive discipline policy for employees:

(1) that Employee has engaged in acts or omissions against the Company or any of its subsidiaries constituting dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing or misfeasance; or

(2) that Employee has been arrested or indicted in a possible criminal violation involving fraud or dishonesty; or

(3) that Employee has intentionally and in bad faith acted in a manner which results in a material detriment to the assets, business or prospects of the Company or any of its subsidiaries; or

(4) that Employee has failed to perform on a prolonged basis, where such failure is considered to be substantial and where corporate performance expectations have been previously agreed upon with the Employee on an annual basis. Further, the failure to perform must be because of things considered to be within the reasonable control of the Employee, generally of an operating or strategic nature, and excluding performance primarily resulting from things clearly beyond the reasonable control of Employee, such as the following:

(A) drop in the Company's stock share price as a result of an overall market correction,
(B) severe national economic conditions, or
(C) adverse problems intrinsic to the Company's industry.

d) In the event that Employee's employment is terminated (i) because the Employee terminates the Employment Period pursuant to Section 2 of this Employment Agreement or (ii) because Employee voluntarily leaves the employ of the Company during the Employment Period:

(1) The Company shall pay to Employee, no later than thirty (30) calendar days after such Termination Date, an amount equal to any unpaid current Annual Base Salary accrued through the Termination Date, plus one (1) times his then current Annual Base Salary. Any bonus finally determined to be payable at the end of the fiscal year in which the Termination Date is included shall be prorated for the period up to and including the Termination Date and shall be promptly paid to Employee at the same time any other similar bonuses are paid to any other employee of the Company for such fiscal year. The Company shall continue to keep in full force and effect all plans or policies of medical, accident and life insurance benefits with respect to Employee and his dependents with the same level of coverage available to employees under the terms of those employee benefit plans for a period of twelve (12) months, upon the same terms, costs and otherwise to the same extent as such plans are in effect for employees of the Company who were similarly situated to Employee as of the Termination Date.

(2) Any restricted shares or stock options previously granted but still subject to restriction or unvested at the Termination Date shall be forfeited. Any vested but unexercisable options shall be exercisable until the earlier of (i) two (2) years commencing on the Termination Date or, (ii) the original term of the option grant.

e) Following the Employment Period, Employee shall be eligible for continuation of health and dental insurance coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act (COBRA) for eighteen (18) months. For the first twelve (12) months, Employee's cost will be an amount equal to the normal employee contribution. Thereafter, the cost will be an amount equal to the COBRA cost of such coverage. During the first eighteen (18) months, Employee may elect any of the coverages available to Humana employees. Thereafter, Humana agrees that

Employee may elect coverage under any of the insured products offered by Humana's health insurance or HMO subsidiaries for Employee, his spouse as of the date hereof ("Spouse"), and any eligible dependent until the later of Employee's age sixty-five (65) or eligibility for Medicare coverage (hereinafter "Extended Coverage"). At the earlier of Employee attaining Medicare eligibility or death, Employee's Spouse and any now current eligible dependent of Employee and Spouse will be eligible for Extended Coverage until the later of Spouse's age sixty-five (65) or Medicare coverage eligibility. If at any time during which the Extended Coverage is in effect Employee or his Spouse obtains Medicare or becomes eligible for other employee group health insurance coverage which does not exclude a pre-existing condition of Employee, Spouse or dependent, Humana's obligation will cease as to the one who has obtained Medicare or, in the case of other employee group health coverage, as to that person and their eligible dependents. Employee's premium for the Extended Coverage and Spouse's premium, if she retains Extended Coverage, will be amount equal to the COBRA cost of such coverage. If Humana hereafter adopts a retiree health insurance program and Humana still has obligations under this provision, Employee will be offered the option of participating in that program in lieu of the Extended Coverage described herein. The health and dental insurance benefits hereunder shall be administered in conjunction with any other similar benefits which the Employee has from the Company but in no case shall be duplicative.

9. Termination After A Change in Control. In the event of a "Change in Control" of the Company (as defined as of the date hereof in the Company's 1996 Stock Incentive Plan for Employees), if, within twenty-four (24) months following the closing of such a Change in Control (or at any time prior thereto but in contemplation thereof):

(i) There is a material reduction in the Employee's title, authority or responsibilities, including reporting responsibilities;

(ii) The Employee's Annual Base Salary is reduced;

(iii) The Employee's office at which he is to perform his duties is relocated to a location more than thirty (30) miles from the location at which the Employee performed his duties prior to the Change in Control;

(iv) The Company fails to continue in effect any incentive, bonus or other compensation plan in which the Employee participates, unless the Company substitutes a substantially equivalent benefit;

(v) The Company fails to continue in effect any employee benefit plan (including any medical, hospitalization, life insurance, dental or disability benefit plan in which the Employee participated) or any material fringe benefit or perquisite enjoyed by the Employee at the time of the Change in Control, unless the Company substitutes benefits which, in the aggregate, are substantially equivalent;

(vi) The Company breaches any material provision of this Employment Agreement; or

(vii) The Company fails to obtain a satisfactory agreement from any successor or assign of the Company to assume and agree to perform this Employment Agreement;

Then the Employee shall have the option to voluntarily terminate his employment and the Company shall:

a) Pay the Employee his full base salary earned but not yet paid through the Termination Date at the greater of the rate in effect at the time of the Change in Control or the

Termination Date ("Higher Annual Base Salary"), plus a bonus calculated at one hundred twenty-five percent (125%) of his Annual Base Salary prorated for the current fiscal year through the Termination Date.

b) Pay the Employee a lump sum in an amount equal to two and one-half (2 1/2) times the amount equal to the sum of (1) the Employee's Higher Annual Base Salary plus (2) the maximum target bonus or incentive compensation which could have been earned by the Employee calculated as if all relevant goals had been met during the then current fiscal year of the Company pursuant to the terms of the incentive compensation plan in which he participates. If there is no incentive compensation plan in effect as of the Termination Date, then for purposes of this Agreement it shall be assumed that the amount of incentive compensation to be paid to the Employee shall be the maximum target amount under any incentive compensation plan in which he participated at the date of the Change in Control or the most recent plan participated in, whichever would be greater.

c) Maintain in full force and effect for the benefit of the Employee and the Employee's dependents and beneficiaries, at the Company's expense, all life insurance, health insurance, dental insurance, accidental death and dismemberment insurance and disability insurance under plans and programs in which the Employee and/or the Employee's dependents and beneficiaries participated immediately prior to the Termination Date, provided that continued participation is possible under the general terms and provisions of such plans and programs ("Extended Benefits"). The Extended Benefits shall be continued until the earlier of (A) the second (2nd) anniversary of the Termination Date, (B) the effective date of the Employee's coverage under equivalent benefits from a new employer (provided that no such equivalent benefits shall be considered effective unless and until all pre-existing condition limitations and waiting period restrictions have been waived or have otherwise lapsed), or (C) the death of the Employee. If participation in any such plan or program is barred, the Company shall arrange at its own expense to provide the Employee with benefits substantially similar to those which he was entitled to receive under such plans and programs. At the end of the period of coverage, the Employee shall have the right to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy relating specifically to him. Employee shall be entitled to continuation coverage as provided in Section 8(d) at the conclusion of the coverage provided under this Section.

The amount of any payment provided for in this Section 9 shall be offset by any lump sum cash payments due the Employee upon termination under any other provisions of this Employment Agreement.

d) To the extent that any amounts or payments in the nature of compensation [within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Section 280G")] to or for the benefit of the Employee under this Employment Agreement or otherwise (or any part of such amount or other payment) constitutes an "excess parachute payment" within the meaning of Section 280G and Section 4999 of the Internal Revenue Code, then the Company shall pay to Employee an additional sum such that, after all taxes applicable to the receipt of such amount have been subtracted therefrom, the remaining amount will equal the sum of the amount of tax imposed with respect to the "excess parachute payment," plus any interest and penalties thereon (other than those caused solely by Employee's action or inaction). Therefore, the effect shall be to maintain the Employee in the same financial position that he would have been in had no tax under Section 280G been imposed.

10.Confidential Information and Trade Secrets.

a) Employee recognizes that Employee's position with the Company requires considerable responsibility and trust, and, in reliance on Employee's loyalty, the Company may entrust Employee with highly sensitive confidential, restricted and proprietary information involving Trade Secrets and Confidential Information.

b) For purposes of this Agreement, a "Trade Secret" is any scientific or technical information, design, process, procedure, formula or improvement that is valuable and not generally known to competitors of the Company. "Confidential Information" is any data or information, other than Trade Secrets, that is important, competitively sensitive, and not generally known by the public, including, but not limited to, the Company's business plans, business prospects, training manuals, product development plans, bidding and pricing procedures, market strategies, internal performance statistics, financial data, confidential personnel information concerning employees of the Company, supplier data, operational or administrative plans, policy manuals, and terms and conditions of contracts and agreements. The terms "Trade Secrets" and "Confidential Information" shall not apply to information which is (i) already in Employee's possession (unless such information was used in connection with formulating the Company's business plans, obtained by Employee from the Company or was obtained by Employee in the course of Employee's employment by the Company), (ii) required to be disclosed by any applicable law.

c) Except as required to perform Employee's duties hereunder, Employee will not use or disclose any Trade Secrets or Confidential Information of the Company during employment, at any time after termination of employment and prior to such time as they cease to be Trade Secrets or Confidential Information through no act of Employee in violation of this Section 11.

d) Upon the request of the Company and, in any event, upon the termination of employment hereunder, Employee will surrender to the Company all memoranda, notes, records, plans, manuals or other documents pertaining to the Company's business or Employee's employment (including all copies thereof). Employee will also leave with the Company all materials involving Trade Secrets or Confidential Information of the Company. All such information and materials, whether or not made or developed by Employee, shall be the sole and exclusive property of the Company, and Employee hereby assigns to the Company all of Employee's right, title and interest in and to any and all of such information and materials.

11.Agreement Not To Compete and Agreement Not To Solicit

a) Agreement Not To Compete. Employee hereby covenants and agrees that for a period commencing on the date hereof and ending twelve (12) months after Employee's Termination Date, Employee, directly or indirectly, personally, or as an employee, officer, director, partner, member, owner, shareholder, investor or principal of, or consultant or independent contractor with, another entity, shall not:

(1) Participate in any business which competes with the Company including, without limitation, health maintenance organizations, insurance companies or prepaid health plan businesses in which the Company has been actively engaged during any part of the two (2) year period immediately preceding the Employee's employment Termination Date ("Company Business"), in any of the markets in which the Company is then currently doing business.

b) Agreement Not To Solicit. Employee hereby covenants and agrees that for a period commencing on the date hereof and ending twelve (12) months after Employee's Termination Date, Employee, directly or indirectly, personally, or as an employee, officer, director, partner, member, owner, shareholder, investor or principal of, or consultant or independent contractor with, another entity, shall not:

(1) Interfere with the relationship of the Company and any of its employees, agents, representatives, consultants or advisors.

(2) Divert, or attempt to cause the diversion from the Company, any Company Business, nor interfere with relationships of the Company with its policyholders, agents, brokers, dealers, distributors, marketers, sources of supply or customers.

(3) Solicit, recruit or otherwise induce or influence any employee of the Company to accept employment in any business which competes with the Company Business, in any of the markets in which the Company is then currently doing business.

12. Specific Enforcement. Employee specifically acknowledges and agrees that the restrictions set forth in Sections 10 and 11 hereof are reasonable and necessary to protect the legitimate interest of the Company and that the Company would not have entered into this Agreement in the absence of such restrictions. Employee further acknowledges and agrees that any violation of the provisions of Sections 10 or 11 hereof will result in irreparable injury to the Company, that the remedy at law for any violation or threatened violation of such Sections will be inadequate and that in the event of any such breach, the Company, in addition to any other remedies or damages available to it at law or in equity, shall be entitled to temporary injunctive relief before trial from any court of competent jurisdiction as a matter of course, and to permanent injunctive relief without the necessity of proving actual damages.

13. Notice. Any notice required to be given by the Company hereunder to Employee shall be in proper form and signed by an officer or Director of the Board of the Company. Until one party shall advise the other in writing to the contrary, notices shall be deemed delivered:

a) To the Company if delivered to the Chairman of the Board of the Company, or if mailed, certified or registered mail postage prepaid, to Humana Inc., 500 West Main Street, Louisville, Kentucky 40202; Attention: Chairman of the Board, with a copy to the Company's General Counsel.

b) To Employee if delivered to Michael B. McCallister, or if mailed to him by certified or registered mail, postage prepaid, to Michael B. McCallister, 2101 Club Vista Place, Louisville, Kentucky 40245.

14. Benefit. This Agreement shall bind and inure to the benefit of the Company and the Employee, their respective heirs, successors and assigns.

15. Severability. If a judicial determination is made that any of the provisions of this Employment Agreement constitutes an unreasonable or otherwise unenforceable restriction against Employee, such provision shall be rendered void only to the extent that such judicial determination finds such provision to be unreasonable or otherwise unenforceable. Moreover, notwithstanding the fact that any provisions of this Employment Agreement are determined not to be specifically enforceable, the Company shall nevertheless be entitled to recover monetary damages as a result of the breach of such provision by Employee.

16. Other. This Employment Agreement shall not be construed as replacing or superceding any other agreements between the

parties, all of which will be deemed to be in full force and effect unless specifically stated otherwise.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year first above written.

ATTEST:	HUMANA INC.
BY: /s/ Joan O. Lenahan Joan O. Lenahan Corporate Secretary	BY: /s/ David A. Jones David A. Jones Chairman of the Board of Directors
WITNESS:	"EMPLOYEE"
/s/Arthur P. Hipwell Arthur P. Hipell	/s/ Michael B. McCallister Michael B. McCallister President and Chief Executive Office

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