SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: October 11, 1995
(Date of Earliest Event Reported)

HUMANA INC.
(Exact name of Registrant as specified in its Charter)

Delaware	1-5975	61-0647538
(State of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

500 West Main Street, Louisville, Kentucky	40202
(Address of principal executive offices)	(Zip Code)

(502) 580-1000
(Registrant's telephone number, including area code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

Upon the terms and subject to the conditions set forth in the Offer to Purchase, dated August 16, 1995, (the "Offer"), HEW, Inc., a Delaware corporation (the "Offeror") and a wholly owned subsidiary of Humana Inc., a Delaware corporation (the "Company"), offered to purchase all outstanding shares of common stock, par value $0.01 per share (the "Shares"), of EMPHESYS Financial Group, Inc., a Delaware corporation ("EMPHESYS"), at a purchase price of $37.50 per Share, net to the seller in cash, without interest (the "Offer Price"). The Offer Price was determined by the Company and its investment advisor, Smith Barney Inc., through a valuation of EMPHESYS based upon public information and information provided to the Company. EMPHESYS received an opinion dated August 8, 1995, from Morgan Stanley & Co. Incorporated (EMPHESYS' investment advisor) to the effect that the Offer Price was fair to EMPHESYS' stockholders from a financial point of view.

The Offer was made pursuant to the Agreement and Plan of Merger, dated as of August 9, 1995 (the "Merger Agreement"), among the Company, the Offeror and EMPHESYS. The Merger Agreement provided, among other things, that as soon as practicable after the purchase of Shares pursuant to the Offer and the satisfaction of the other conditions set forth in the Merger Agreement and in accordance with the relevant provisions of the General Corporation Law of the State of Delaware (the "DGCL"), the Offeror would be merged with and into EMPHESYS (the "Merger"). Other than as described in the Merger Agreement, there were no material relationships between the Company, the Offeror and EMPHESYS.

As a result of all conditions of the tender offer being met, including obtaining all necessary regulatory approvals and the attainment by EMPHESYS of certain specified financial and operational targets, the tender offer was closed and all shares tendered were acquired on October 11, 1995.
At the close of the tender, 16,890,756 or 99 percent of the Shares were acquired. Under the DGCL, if 90 percent or more of the shares are acquired, the Merger can be consummated without the vote of the remaining stockholders. The Merger was consummated on October 13, 1995. At the effective time of the Merger, each remaining issued and outstanding Share not purchased in the tender offer was converted into and represented the right to receive the Offer Price. Following consummation of the Merger, EMPHESYS continued as the surviving corporation and became a wholly owned subsidiary of the Company.

The aggregate purchase price of approximately $650 million was funded by the Company through available cash, the sale of selected marketable securities and bank borrowings. The bank borrowings of approximately $250 million were pursuant to a credit agreement, as amended and restated, dated as of September 26, 1995, among the Company, Chemical Bank, as agent, and several other banks.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Business Acquired

EMPHESYS Financial Group, Inc. and Subsidiaries
Index to Consolidated Financial Statements

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	June 30, 1995	December 31, 1994
	(unaudited)	
ASSETS		
Investments:		
Securities available for sale, at fair value:		
Fixed income (amortized cost: 1995--$556,851; 1994--$562,366)	$ 580,584	$ 542,150
Equity (cost: 1995--$6,940 and		

1994--$7,170)	7,725	7,337
Commercial mortgages	59,478	60,203
Real estate	1,142	1,107
Short-term investments	47,317	34,823
Other investments	4,023	5,200
Total investments	700,269	650,820
Property and equipment:		
Land	2,071	2,071
Land improvements	3,857	3,857
Building and improvements	25,145	24,820
Office equipment	56,476	51,655
	87,549	82,403
Less accumulated depreciation	(39,397)	(37,646)
Net property and equipment	48,152	44,757
Receivables and other assets:		
Premiums receivable, less allowance for doubtful accounts (1995 and 1994-- $464)	16,675	15,179
Accrued investment income	11,104	12,686
Due from reinsurers	1,767	1,293
Deferred income taxes	22,652	30,012
Other assets	5,884	6,052
Total receivables and other assets	58,082	65,222
Intangible assets:		
Excess of purchase price over fair value of net assets acquired, less accumulated amortization (1995-- $19,649; 1994--$17,434)	55,504	48,886
Present value of insurance in force and other intangible assets, less accumulated amortization (1995 -- $6,188; 1994 -- $5,171)	7,139	4,304
	62,643	53,190
Separate account assets	10,431	12,397
	$ 879,577	$ 826,386

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)

(In thousands, except per share amounts)

	June 30, 1995 (unaudited)	December 31, 1994
RESERVES, LIABILITIES AND STOCKHOLDERS' EQUITY		
Insurance reserves and liabilities:		
Claim liabilities:		
Accident and health	$ 304,527	$ 296,048
Group life and other	5,932	5,579
Future policy benefits	9,715	9,536

Total insurance reserves and liabilities	320,174	311,163
Other liabilities:		
Premiums paid in advance	29,628	26,279
Other policyholders' funds	3,683	7,533
Amounts due reinsurers	792	4,072
Accrued expenses and other liabilities	85,104	97,639
Federal income taxes	9,492	10,233
Notes payable	56,380	55,947
Total other liabilities	185,079	201,703
Separate account liabilities	10,431	12,397
Stockholders' equity:		
Preferred stock ($0.01 par value, 1,000,000 shares authorized, 1995 and 1994 - none outstanding)	-	-
Common stock ($0.01 par value, 50,000,000 shares authorized, June 30, 1995 - 17,063,997 outstanding; December 31, 1994 - 17,025,840 outstanding)	171	170
Additional paid-in capital	170,719	169,279
Retained earnings	179,142	153,653
Unearned compensation - restricted stock awards	(2,075)	(1,930)
Net unrealized gain (loss) on securities available for sale	15,936	(20,049)
Total stockholders' equity	363,893	301,123
	$ 879,577	$ 826,386

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1995	1994	1995	1994
Premium revenues	$ 398,039	$ 341,226	$ 781,933	$ 677,981
Net investment income	13,551	11,749	26,681	23,942
Realized gain on investments	1,212	148	777	647
Administrative fees and other	7,958	5,446	16,512	10,298

Total revenue	420,760	358,569	825,903	712,868
Policy benefits paid or provided	302,643	248,413	587,044	494,419
Salaries and other operating expenses	62,296	54,552	122,498	107,670
Commissions	31,176	26,335	62,512	54,587
Amortization of intangible assets	1,745	1,290	3,233	2,378
Interest expense	1,041	713	2,036	926
Total benefits and expenses	398,901	331,303	777,323	659,980
Income before federal income taxes	21,859	27,266	48,580	52,888
Federal income taxes	8,086	10,114	17,972	19,594
Net income	$ 13,773	$ 17,152	$ 30,608	$ 33,294
Net income per common and common equivalent share	$ 0.81	$ 1.01	$ 1.79	$ 1.96
Net income per common share-assuming full dilution	$ 0.81	$ 1.00	$ 1.79	$ 1.95
Dividends declared per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 1995	1994
Operating activities		
Net income	$ 30,608	$ 33,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in receivables and other assets	26	(2,852)
Increase (decrease) in insurance reserves and liabilities	8,681	4,530

Increase (decrease) in other liabilities	(13,811)	6,645
Amortization of intangible assets and restricted stock awards	4,527	2,735
Provision for depreciation	5,085	4,261
Provision (credit) for deferred federal income taxes	(1,049)	27
Realized gain on investments	(777)	(647)
Net amortization of investment premium (discount)	(659)	222
Net cash provided by operating activities	32,631	48,215
Investing activities		
Purchase of fixed income securities	(22,059)	(62,501)
Purchase of equity securities	(12,699)	(6,740)
Purchase of commercial mortgages	-	-
Proceeds from the sale of fixed income securities	14,978	4,275
Proceeds from the sale of equity securities	-	4
Proceeds from maturities, redemptions and principal repayments of fixed income securities	17,012	21,710
Purchase of property and equipment	(7,668)	(3,879)
Carrying value of property and equipment sold	78	37
Other	(153)	59
Net cash used in investing activities	(10,511)	(47,035)
Financing activities		
Dividends paid to stockholders	(5,119)	(7,687)
Repayment of notes payable	(275)	(914)
Decrease in cash overdraft	(4,232)	(579)
Net cash used in financing activities	(9,626)	(9,180)
Increase (decrease) in cash and cash equivalents	12,494	(8,000)
Cash and cash equivalents at beginning of period	34,823	8,000
Cash and cash equivalents at end of period	$ 47,317	$ -

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1995

(Unaudited)

1. Business

EMPHESYS Financial Group, Inc. ("EMPHESYS"), through its subsidiary, Employers Health Insurance ("EHI"), is a leading provider of a broad range of employee benefit products to small businesses, including managed care group medical, group life, group dental and group disability income insurance. The Company also provides administrative and managed care services to medium and large employers, flexible benefits services to employers of all sizes, purchasing pool marketing and administration for governmental and private organizations, and distribution of group health insurance products. EMPHESYS operates in one segment - the employer-based, managed care medical and insurance services segment of the insurance industry.

2. Basis of Presentation

The consolidated financial statements include the accounts of EMPHESYS and its subsidiaries, collectively referred to as the Company. All significant intercompany transactions have been eliminated.

The accompanying financial statements have been prepared 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. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The interim financial data is unaudited; however, in the opinion of management, the interim data includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results for interim periods. The results of operations for the three and six month periods ended June 30, 1995 is not necessarily indicative of the results to be expected for the year ended December 31, 1995.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and footnotes for the year ended December 31, 1994, incorporated by reference in the Company's Annual Report on Form 10-K filed in March 1995 with the Securities and Exchange Commission.

3. Investments

The Company's fixed income securities and equity securities (common and non-redeemable preferred stock) are classified as "available for sale" and, accordingly, are carried at fair value. The cost of fixed income securities is adjusted for amortization of premiums and discounts. Unrealized gains and losses associated with available for sale securities are excluded from net income and are recorded as a component of stockholders' equity, net of deferred income taxes. Fixed income securities and equity securities deemed to have declines in value that are other than temporary are written down through the statement of income to carrying values equal to their estimated fair values. Realized gains (losses) on investments are recognized in net income using the specific identification method.

For the mortgage-backed securities portion of the fixed income securities portfolio, including collateralized mortgage obligations, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in each security is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. This adjustment is reflected in net investment income.

Commercial mortgages are carried at their outstanding principal balances less unaccrued discounts and allowances for loan losses. Real estate, acquired principally through foreclosure, is carried at the lower of depreciated cost or fair value. Short-term and other investments are carried at cost, which approximates fair value.

4. Notes Payable

Notes payable consist principally of a $50 million term note payable to Lincoln National Corporation or its subsidiaries issued on March 4, 1994. The principal amount of the term note is payable in full on or before December 31, 1996. The term note bears interest at a variable rate equal to .75% over the three-month LIBOR rate, adjusted quarterly. The rate of interest in effect for the three months ended June 30, 1995 and 1994 was 7% and 4.8%, respectively. For the six months ended June 30, 1995 and 1994, the interest rate was 7.1% and 4.8%, respectively. Interest is payable quarterly through the end of the loan term.

The term note is secured by a pledge of 20% of the outstanding common stock of EHI. In addition, the term note contains restrictive covenants which, among other things, limit the acquisition or disposition of assets or business units by EMPHESYS and the repurchase or redemption of EMPHESYS' common stock. The term note contains covenants which impose borrowing limits on the Company and EHI and requires the maintenance of a $200,000,000 minimum level of surplus for EHI.

5. Federal Income Taxes

The Company provides for income taxes using the liability method of accounting, whereby deferred income tax assets or liabilities are recognized on the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These differences relate primarily to accelerated depreciation on property and equipment, unrealized gains and losses on investment securities, discounting of accident and health claims liabilities for tax purposes, premiums paid in advance, the deferral of certain policy acquisition costs for tax purposes, differences in claims liability reserves calculated for book and tax purposes and the accrual of estimated salvage and subrogation receivable for tax purposes. Such tax assets or liabilities are adjusted regularly to amounts estimated to be receivable or payable based on enacted future tax laws and rates. Valuation allowances are provided for those deferred tax assets whose realization is uncertain. Changes in the valuation allowance related to deferred tax assets provided on unrealized losses on available for sale securities are charged directly to stockholders' equity.

6. Contingent Liabilities

The Company is involved in various pending or threatened legal proceedings arising from the normal conduct of business. It is management's opinion that these proceedings ultimately will be resolved without materially affecting the financial position of the Company.

7. Earnings per Share

Earnings per share are calculated based on the weighted average shares of common stock and common stock equivalents outstanding during the periods presented. Common stock equivalents arising from dilutive stock options are computed using the treasury stock method.

8. Dividends

On August 2, 1995, the Company's Board of Directors declared a quarterly dividend of $0.15 per share, payable on September 15, 1995 to shareholders of record on September 1, 1995.

9. Reclassifications

Certain 1994 amounts have been reclassified to conform to the 1995 presentation.

Report of Ernst & Young, LLP, Independent Auditors

The Board of Directors and Stockholders
EMPHESYS Financial Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of EMPHESYS Financial Group, Inc. and Subsidiaries (the "Company") as of December 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EMPHESYS Financial Group, Inc. and Subsidiaries at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes 2 and 3 to the consolidated financial statements, in 1993 the Company changed its method of accounting for post-retirement benefits other than pensions, income taxes and certain investments in debt and equity securities.

Milwaukee, Wisconsin
January 27, 1995

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	December 31,	
	1993	1994
ASSETS		
Investments:		
Securities available for sale, at fair value:		
Fixed income (amortized cost: 1993--$522,716; 1994--$562,366)	$ 563,719	$ 542,150
Equity (cost: 1993--$3,045; and 1994--$7,170)	3,489	7,337
Commercial mortgages, less allowance for losses (1993 - $2,120)	64,027	60,203
Real estate	1,100	1,107
Short-term investments	8,000	34,823
Other investments	3,398	5,200
Total investments	643,733	650,820
Property and equipment:		
Land	2,071	2,071
Land improvements	3,848	3,857
Building and improvements	24,373	24,820
Office equipment	41,757	51,655
	72,049	82,403
Less accumulated depreciation	(29,757)	(37,646)
Net property and equipment	42,292	44,757
Receivables and other assets:		
Premiums receivable, less allowance for doubtful accounts (1993 - $428; 1994- $464)	8,933	15,179
Accrued investment income	9,686	12,686
Due from reinsurers	2,983	1,293
Deferred income taxes	15,519	30,012
Other assets	4,201	6,052
Total receivables and other assets	41,322	65,222
Intangible assets:		
Excess of purchase price over fair value of net assets acquired, less accumulated amortization (1993-$13,100; 1994--$17,434)	49,447	48,886
Present value of insurance inforce and other intangible assets, less accumulated amortization (1993 - $4,150; 1994 - $5,171)	2,850	4,304
Total intangible assets	52,297	53,190
Separate account assets	13,899	12,397
	$ 793,543	$ 826,386

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, continued

(in thousands, except share amounts)

	December 31,	
	1993	1994

RESERVES, LIABILITIES AND
STOCKHOLDERS' EQUITY

Insurance reserves and liabilities:		
Claim liabilities:		
Accident and health	$ 293,217	$ 296,048
Group life and other	5,538	5,579
Future policy benefits	8,507	9,536
Total insurance reserves and liabilities	307,262	311,163
Other liabilities:		
Premiums paid in advance	21,053	26,279
Other policyholders' funds	4,039	7,533
Amounts due reinsurers	4,530	4,072
Accrued expenses and other liabilities	80,449	97,639
Dividends payable	5,156	-
Federal income taxes	10,541	10,233
Notes payable	6,459	55,947
Total other liabilities	132,227	201,703
Separate account liabilities	13,899	12,397
Commitments and contingent liabilities (Notes 7 and 12)		
Stockholders' equity:		
Preferred stock (1994 - $0.01 par value, 1,000,000 shares authorized, none outstanding)	-	-
Common stock (1994 - $0.01 par value, 50,000,000 shares authorized, 17,025,840 outstanding; 1993 - $8 par value, 15,000,000 shares authorized, 1,104,167 outstanding) (Note 1)	8,893	170
Additional paid-in capital	207,228	169,279
Retained earnings	97,032	153,653
Unearned compensation - restricted stock awards	-	(1,930)
Net unrealized gain (loss) on securities available for sale	27,002	(20,049)
Total stockholders' equity	340,155	301,123
	$ 793,543	$ 826,386

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	For the Year Ended December 31,		
	1992	1993	1994
Revenues:			
Premiums	$ 1,191,470	$ 1,239,782	$ 1,386,814
Net investment income	43,453	47,378	48,619
Realized gain on investments	1,293	2,068	1,539
Administrative fees and other	11,384	15,445	25,299
Total revenues	1,247,600	1,304,673	1,462,271
Policy benefits and expenses:			
Policy benefits paid or provided	900,115	919,255	1,020,283
Salaries and other operating expenses	177,179	192,691	222,544
Commissions	97,751	98,595	109,217
Amortization of intangible assets	2,407	3,980	5,354
Interest expense	-	-	2,807
Total benefits and expenses	1,177,452	1,214,521	1,360,205
Income before federal income taxes and cumulative effect of changes in accounting principle	70,148	90,152	102,066
Federal income taxes	26,275	32,099	37,786
Income before cumulative effect of changes in accounting principle	43,873	58,053	64,280
Cumulative effect of changes in accounting principle, net of income taxes	-	(2,815)	-
Net income	$ 43,873	$ 55,238	$ 64,280

Per common and common equivalent share:			
Income before cumulative effect of changes in accounting principle	$ 2.58	$ 3.42	$ 3.77
Cumulative effect of changes in accounting principle	-	(0.17)	-
Net income	$ 2.58	$ 3.25	$ 3.77

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Compensation -Restricted Stock Awards	Unrealized Gain (Loss) on Securities Available For Sale	Total Stock-holders' Equity
Balance at January 1, 1992	1,104,167	$ 8,893	$ 207,228	$ 44,163	$ -	$ 1,663	$ 261,947
1992 net income				43,873			43,873
Dividends declared				(25,617)			(25,617)
Change in unrealized gain (loss)						55	55
Balance at December 31, 1992	1,104,167	8,893	207,228	62,419	-	1,718	280,258
1993 net income				55,238			55,238
Dividends declared				(20,625)			(20,625)
Change in unrealized gain (loss)						25,284	25,284
Balance at December 31, 1993	1,104,167	8,893	207,228	97,032	-	27,002	340,155
Reclassification to recognize effect of the reorganization	15,773,102	(8,724)	8,724				-
Distribution to parent pursuant to the reorganization			(50,000)				(50,000)
Restricted stock issued pursuant to the initial public offering	122,731	1	2,757		(2,758)		-
1994 net income				64,280			64,280
Dividends declared				(7,659)			(7,659)
Change in unrealized gain (loss)						(47,051)	(47,051)
Issuance of restricted stock pursuant to benefit plans	25,840		570				570
Amortization of restricted stock grants					828		828
Balance at December 31, 1994	17,025,840	$ 170	$ 169,279	$ 153,653	$ (1,930)	$ (20,049)	$ 301,123

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the year ended December 31, 1992	1993	1994
Operating activities:			
Net income	$ 43,873	$ 55,238	$ 64,280
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in receivables and other assets	1,600	(6,582)	(9,020)
Increase in insurance reserves and liabilities	19,663	46,452	3,901
Increase (decrease) in other liabilities	(1,046)	11,758	24,303
Amortization of intangible assets and restricted stock awards	2,407	3,980	6,182
Provision for depreciation	5,061	7,877	9,291
Provision (credit) for deferred federal income taxes	(11,501)	(7,691)	198
Proceeds from sale of trading account securities	1,954	2,015	-
Realized gain on investments	(1,293)	(2,068)	(1,539)
Net amortization of investment premium or discount	(1,065)	(2,398)	782
Cumulative effect of changes in accounting principle	-	2,815	-

Net cash provided by operating activities	59,653	111,396	98,378
Investing activities:			
Purchase of fixed income securities	(114,793)	(146,919)	(95,346)
Purchase of equity securities	-	(1,625)	(8,096)
Purchase of commercial mortgages	(15,050)	(34,420)	(143)
Proceeds from sale of fixed income securities	54,495	20,212	20,839
Proceeds from sale of equity securities	-	108	6
Proceeds from maturities, redemptions and principal repayments of fixed income securities	47,904	79,185	37,719
Purchase of property and equipment	(7,131)	(13,634)	(11,682)
Carrying value of property and equipment sold	439	128	150
Other	957	(16)	(903)
Net cash used in investing activities	(33,179)	(96,981)	(57,456)
Financing activities:			
Dividends paid to stockholders	(25,474)	(21,874)	(12,815)
Proceeds from (repayment of) notes payable	-	6,459	(1,284)
Net cash used in financing activities	(25,474)	(15,415)	(14,099)
Increase (decrease) in cash and cash equivalents	1,000	(1,000)	26,823
Cash and cash equivalents at beginning of year	8,000	9,000	8,000
Cash and cash equivalents at end of year	$ 9,000	$ 8,000	$ 34,823
Supplementary data:			
Interest paid	$ -	$ -	$ 2,807
Income taxes paid	39,846	45,619	38,177
Distribution to Lincoln Life in the form of note payable	-	-	50,000
Insurance reserves assumed from Lincoln Life	41,168	7,373	-

See notes to consolidated financial statements.

EMPHESYS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1994

1. BASIS OF PRESENTATION

BUSINESS

EMPHESYS Financial Group, Inc. ("EMPHESYS"), through its subsidiary, Employers Health Insurance ("EHI"), is a leading provider of a broad range of employee benefit products to small businesses, including managed care group health, group life, dental and disability income insurance. The Company also provides administrative and managed care services to medium and large employers, flexible benefits services to employers of all sizes, purchasing pool marketing and administration for governmental and private organizations, and distribution of group health insurance products. Wisconsin Employers Group, Inc.'s ("WEG") operations are limited to leasing certain office equipment to EHI. EMPHESYS operates in one segment - the employer-based, managed care medical and insurance services segment of the insurance industry.

BASIS OF CONSOLIDATION

The consolidated financial statements as of and for the year ended December 31, 1994, include the accounts of EMPHESYS and its subsidiaries, EHI and WEG, collectively referred to as the Company. All significant intercompany transactions have been eliminated.

Financial statements as of December 31, 1993, and for the years ended December 31, 1993 and 1992, prior to the reorganization described below, reflect the combined financial position and results of operations and cash flows of EHI and WEG. Amounts relating to EHI and WEG at December 31, 1993 are summarized as follows:

	Total Assets	Stockholders' Equity
	(in thousands)	
EHI	$ 793,702	$ 340,315
WEG	(159)	(160)
	$ 793,543	$ 340,155

REORGANIZATION

EMPHESYS was formed on December 15, 1993 by the Lincoln National Life Insurance Company ("Lincoln Life") to act as a holding company for EHI and WEG. Under a preorganization subscription agreement dated December 15, 1993, Lincoln Life, upon receiving required regulatory approvals, transferred its 100% stock ownership in EHI and WEG to EMPHESYS in exchange for 17,000,000 shares of EMPHESYS' common stock and a $50,000,000, three-year term note. The reorganization was completed on March 4, 1994. The reorganization transaction was a transfer among entities under common control and, therefore, was accounted for using historical values similar to pooling-of-interests accounting.

On December 16, 1993, the Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission for the initial public offering of 10,500,000 shares of its common stock. The closing of the transaction occurred on March 21, 1994. All shares in the public offering were offered for sale by Lincoln Life, with all proceeds from the offering being retained by Lincoln Life. In connection with the public offering, Lincoln Life also sold 200,000 shares of the Company's Common Stock to EHI, which EHI subsequently contributed to its profit sharing 401(k) plan and trust. Lincoln Life also contributed 127,293 shares of the Company's Common Stock to the Company of which 122,731

shares were awarded to certain members of the Company's management in the form of restricted stock awards. In addition, the underwriters, on April 13, 1994, notified the Company and Lincoln Life of the exercise of their over-allotment option to purchase an additional 1,186,200 shares of Common Stock from Lincoln Life. On April 19, 1994, Lincoln Life transferred its retained stock ownership in the Company to Lincoln National Corporation ("LNC"). At December 31, 1994, and after consideration of the transactions described above, LNC held 4,986,507 shares or approximately 29.3% of the issued and outstanding Common Stock of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

As of December 31, 1993, in accordance with Statement of Financial Accounting Standards No. 115, fixed income securities and equity securities (common and nonredeemable preferred stocks) are classified as "available for sale" and, accordingly, are carried at fair value. The cost of fixed income securities is adjusted for amortization of premiums and discounts. Unrealized gains and losses associated with available for sale securities are excluded from net income and are recorded as a component of stockholders' equity, net of deferred income taxes. Fixed income securities and equity securities deemed to have declines in value that are other than temporary are written down through the statement of income to carrying values equal to their estimated fair values. Realized gains (losses) on investments are recognized in net income using the specific identification method.

Prior to December 31, 1993, the Company classified fixed income securities in accordance with existing accounting standards and, accordingly, identified those fixed income securities that were not intended to be held to maturity as either "trading" or "held for sale." Trading securities were carried at fair value, with unrealized gains or losses excluded from net income and recorded as a separate component of stockholders' equity, net of deferred income taxes. Held for sale securities were carried at the lower of aggregate amortized cost or fair value.

For the mortgage-backed securities portion of the fixed income securities portfolio, including collateralized mortgage obligations, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in each security is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. This adjustment is reflected in net investment income.

Commercial mortgages are carried at their outstanding principal balances less unaccrued discounts and allowances for loan losses. Real estate, acquired principally through foreclosure, is carried at the lower of depreciated cost or fair value. Short-term and other investments are carried at cost, which approximates fair value.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost. Provisions for depreciation are computed principally by the straight-line method at rates based on estimated useful lives of 3 to 7 years for equipment and 40 years for buildings.

INTANGIBLE ASSETS

The excess purchase price over fair value of net assets acquired consists primarily of goodwill associated with Lincoln Life's 1986 acquisition of EHI ("Lincoln goodwill"). Prior to January 1, 1993, Lincoln goodwill was being amortized and charged to income over 40 years. Effective January 1, 1993, the remaining amortization period for the unamortized balance of Lincoln goodwill was reduced to 14 years based on management's estimate of the remaining life of this asset. The effect of this change was to reduce net income for the years ended December 31, 1993 and 1994 by approximately $2,237,000. Other goodwill consists of the excess purchase price over the fair value of net assets of acquired subsidiaries and divisions of EHI. These amounts are being amortized over their estimated lives of three to five years.

The estimated present values of acquired group accident and health insurance blocks of business are being amortized in relation to estimated future profits associated with the acquired policies and charged to income as the estimated profits are recognized. Other intangible assets, consisting of trademarks, customer lists and agreements not to compete, are being amortized over their estimated useful lives of approximately three years.

The Company periodically reviews goodwill and other intangible assets to assess permanent impairment. Impairment is recognized in income when the expected, undiscounted future operating cash flows from the underlying asset or business unit are less than the carrying value of the related intangible asset.

FUTURE POLICY BENEFITS

Liabilities for future policy benefits principally related to annuity policies are based on cash values of the related policies including interest additions at current rates.

CLAIM LIABILITIES

The liabilities for insurance claims are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims which are unpaid at year end. The Company's year-end claim liabilities are substantially satisfied through claim payments in the subsequent year. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for insurance claims are adequate. In recent years, the ultimate settlement of claims has resulted in claims liabilities in excess of subsequent payments by amounts less than 5% of annual benefit costs. The estimates are reviewed periodically and as adjustments to these liabilities become necessary, these adjustments are reflected in current operations.

ACCRUED EXPENSES AND OTHER LIABILITIES

Included in accrued expenses and other liabilities are cash credit balances totalling $26,284,000 and $37,659,000 at December 31, 1993 and 1994, respectively.

SEPARATE ACCOUNT

The separate account assets and liabilities reflected in the balance sheets represent the assets (principally certificates of deposit) and liabilities for group annuity contracts issued through financial institutions. The assets of the separate accounts are segregated from the Company's other assets both for investment and administrative purposes. Investment income on the specific certificates of deposit purchased with the annuitants' premium payments is utilized to fund the annuity benefits and to pay the Company a contractually predetermined administrative fee which is recognized over the life of the contract.

RECOGNITION OF PREMIUM REVENUE AND RELATED BENEFITS AND EXPENSES

Premiums for group life and accident and health policies are recognized ratably over the period of insurance coverage. Benefits and expenses are recorded on a basis consistent with the recognition of premium revenue.

REINSURANCE ASSUMED AND CEDED

The Company assumes and cedes reinsurance to provide for greater diversification of business and to reduce its exposure to potential losses arising from large risks. Premiums paid for reinsurance ceded are recognized during the period coverage is in effect. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured policies.

FEDERAL INCOME TAXES

Prior to January 1, 1993, deferred federal income taxes were provided for timing differences between financial statement income and income reported for tax purposes. Subsequent to December 31, 1992, deferred income tax assets or liabilities are recognized on the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided for those deferred tax assets whose realization is uncertain. Changes in the valuation allowance related to deferred tax assets provided on unrealized losses on available for sale securities are charged directly to stockholders' equity.

CASH FLOWS

For purposes of the statements of cash flows, the Company considers highly liquid, short-term investments with an original maturity of three months or less and investments in money market funds to be cash equivalents.

EARNINGS PER SHARE

Earnings per share are calculated based on the weighted average shares of common stock and common stock equivalents outstanding during the periods presented. Common stock equivalents arising from dilutive stock options are computed using the treasury stock method. For periods prior to March 4, 1994 (the date of the Company's reorganization), earnings per share is computed assuming 17,000,000 shares of common stock are outstanding.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the 1994 presentation.

3. ACCOUNTING CHANGES

POST-RETIREMENT BENEFITS

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions," effective January 1, 1993, by electing the immediate recognition of the transition obligation as defined in the statement. The cumulative effect of adopting this statement was a one-time charge to income of $3,876,000 (net of the applicable tax benefit of $1,997,000).

INCOME TAXES

The Company adopted SFAS No. 109, "Accounting for Income Taxes," on January 1, 1993. The cumulative effect of adopting this statement was to increase net income by $1,061,000. Financial statements for 1992 were not restated to reflect this new accounting principle.

4. INVESTMENTS

The amortized cost and estimated fair values of fixed income securities, by category, are as follows:

December 31, 1993

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. Government	$ 35,671	$ 3,664	$ -	$ 39,335
Corporate securities	339,420	27,940	1,418	365,942
Foreign bonds	998	66	-	1,064
Mortgage-backed securities	146,627	11,293	542	157,378
	$ 522,716	$ 42,963	$ 1,960	$ 563,719

December 31, 1994

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. Government	$ 35,324	$ 664	$ 380	$ 35,608
States and municipals	13,469	130	1	13,598
Corporate securities	384,411	3,209	21,000	366,620
Foreign bonds	999	-	102	897
Mortgage-backed securities	128,163	2,373	5,109	125,427
	$ 562,366	$ 6,376	$ 26,592	$ 542,150

Fair values of fixed income securities are based on quoted market prices, where available. For fixed income securities not actively traded, fair values are estimated using values obtained from independent pricing services, or, in the case of private placements, are estimated by discounting expected future cash flows using a current market rate applicable to the coupon rate, credit quality and maturity of the investments.

The amortized cost and estimated fair value of fixed income securities at December 31, 1994, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$ 11,754	$ 11,724
Due after one year through five years	101,864	100,994
Due after five years through ten years	175,149	166,903
Due after ten years	145,436	137,102
	434,203	416,723
Mortgage-backed securities	128,163	125,427
	$ 562,366	$ 542,150

Proceeds from sales of investments in fixed income securities (excluding maturities and redemptions) were as follows:

	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
		(in thousands)	
Year ended December 31, 1992:			
Held for sale securities	$ 54,495	$ 4,144	$ 593
Trading account securities	1,954	-	1
	$ 56,449	$ 4,144	$ 594
Year ended December 31, 1993:			
Held for sale securities	$ 20,212	$ 782	$ 168
Trading account securities	2,015	8	-
	$ 22,227	$ 790	$ 168
Year ended December 31, 1994:			
Available for sale securities	$ 20,839	$ 599	$ 691

Realized and unrealized gains and losses on investments, including gains and losses on securities called in advance of their maturity by the issuer, are as follows:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Net realized gains (losses):			
Fixed income securities	$ 3,551	$ 2,514	$ 7
Equity securities	82	(12)	2
Trading account securities	(1)	-	-
Recoveries (provisions and writedowns):			
Commercial mortgages	(1,572)	(121)	1,480
Real estate	-	(313)	40
Fixed income securities	(767)	-	10
	$ 1,293	$ 2,068	$ 1,539

	December 31,		
	1992	1993	1994
		(in thousands)	
Unrealized gains (losses):			
Equity securities:			
Gross unrealized gains	$ 710	$ 682	$ 627
Gross unrealized losses	(278)	(238)	(460)
Deferred income tax expense (benefit)	(132)	(135)	-
Fixed income securities:			
Gross unrealized gains	2,148	42,963	6,376
Gross unrealized losses	-	(1,960)	(26,592)
Deferred income tax expense (benefit)	(730)	(14,310)	-
	$ 1,718	$ 27,002	$(20,049)

The net change in net unrealized gains (losses) on investment securities is as follows:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Increase (decrease) in net unrealized gains (losses):			
Equity securities	$ 153	$ 12	$ (277)
Fixed income securities	(71)	38,855	(61,219)
Applicable income taxes	(27)	(13,583)	14,445
Net increase (decrease)	$ 55	$ 25,284	$(47,051)

Net investment income is comprised of the following:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Fixed income securities	$ 40,683	$ 42,664	$ 42,868
Equity securities	139	121	118

Commercial mortgages	1,946	3,573	5,158
Short-term, real estate and other investments	1,371	1,464	1,346
Gross investment income	$ 44,139	$ 47,822	$ 49,490
Investment expenses	(686)	(444)	(871)
	$ 43,453	$ 47,378	$ 48,619

The carrying value of investments which are non-income producing and commercial mortgages considered to be impaired under SFAS No. 114 are as follows:

	December 31,	
	1993	1994
	(in thousands)	
Fixed income securities	$ 1,759	$ 1,815
Real estate	1,100	1,107
Commercial mortgages	5,000	-

Valuation allowances of $2,120,000 were provided on $5,000,000 of impaired commercial mortgages at December 31, 1993.

All impaired commercial mortgage loans are on a non-accrual basis. Interest income recognized on impaired loans was as follows:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Impaired commercial mortgages, average balance	$ 7,000	$ 5,500	$ 4,566
Interest income contractually due	673	515	422
Interest income recognized	-	-	51
Interest income received - cash basis	-	-	51

A summary of activity in the allowance for loan losses is as follows:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Balance at beginning of year	$ 1,000	$ 2,572	$ 2,120
Provisions (recoveries)	1,572	121	(1,480)
Charge-offs	-	(573)	(640)
Balance at end of year	$ 2,572	$ 2,120	$ -

The Company has estimated the fair value of its investment in commercial mortgages using a discounted cash flow method based on rating, maturity and future income when compared to the expected yield for mortgages having similar characteristics. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt service coverage, loan to value ratio, caliber of tenancy, borrower and payment record. The fair value of impaired mortgages considers such factors as the degree of default, whether or not payments are still being made, interest rate, maturity and operating performance of the underlying collateral.

A summary of the fair values of the Company's financial assets (liabilities) follows:

	December 31,			
	1993		1994	
	Fair Value	Carrying Value	Fair Value	Carrying Value
		(in thousands)		
Securities available for sale:				
Fixed income	$ 563,719	$ 563,719	$ 542,150	$ 542,150
Equity	3,489	3,489	7,337	7,337
Commercial mortgages	65,400	64,027	56,805	60,203
Short-term investments	8,000	8,000	34,823	34,823
Other investments	3,398	3,398	5,200	5,200

Notes payable	(6,459)	(6,459)	(55,947)	(55,947)

The Company does not have a material concentration of financial instruments in a single investee, industry or geographic location or off-balance sheet risks which would expose the Company to credit risk.

5. FEDERAL INCOME TAXES

The components of federal income tax expense are as follows:

	For the Year Ended December 31,		
	1992	1993	1994
	Deferred Method	Liability Method	
	(in thousands)		
Current	$ 37,776	$ 39,790	$ 37,588
Deferred (credit)	(11,501)	(7,691)	198
	$ 26,275	$ 32,099	$ 37,786

A reconciliation of the differences between income tax expense determined using the statutory federal income tax rate and the Company's effective income tax rate is as follows:

	For the Year Ended December 31,		
	1992	1993	1994
	Deferred Method	Liability Method	
	(in thousands)		
Income tax at statutory rate applied to income before taxes	$ 23,851	$ 31,553	$ 35,721
Add (deduct) tax effect of:			
Tax-exempt interest and dividends received deduction	(86)	(27)	(33)
Intangible asset amortization	532	1,331	1,487
Other non-deductible expenses	57	563	717
Increase in statutory tax rates	-	(555)	-
Other	1,921	(766)	(106)
	$ 26,275	$ 32,099	$ 37,786

Significant components of the Company's deferred federal tax liabilities and assets are as follows:

	December 31,	
	1993	1994
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	$ 2,854	$ 3,064
Discount on bonds	431	680
Unrealized gains on available for sale securities	14,492	-
Total deferred tax liabilities	17,777	3,744
Deferred tax assets:		
Post-retirement benefits other than pensions	2,526	3,153
Advance premium discounting	1,474	1,833
Deferred acquisition costs	558	692
Medical reserves discounting	2,802	2,865
Claim liability reserves	18,451	16,671
Salvage and subrogation	5,165	5,588
Accrual differences	1,391	2,785
Investment write-downs	929	169
Unrealized losses on available for sale securities	-	7,017
Total deferred tax assets	33,296	40,773
Less: valuation allowance	-	(7,017)
Net deferred tax assets	$ 15,519	$ 30,012

The components of the deferred income tax expense (credit) are as follows:

	For the Year Ended December 31,		
	1992	1993	1994
	Deferred Method	Liability Method	
	(in thousands)		
Financial accounting increase in claim liabilities less than (greater than) the			

increase for tax purposes	$ (11,958)	$ (6,926)	$ 1,717
Post-retirement benefits other than pensions	-	(529)	(627)
Premiums recognized as income for tax purposes and prepaid for financial accounting purposes	503	(20)	(359)
Estimated salvage and subrogation recognized as income for tax purposes	(408)	59	(423)
Provision for losses on real estate, loans and fixed income securities	(795)	206	760
Other	1,157	(481)	(870)
	$ (11,501)	$ (7,691)	$ 198

Prior to March 4, 1994, the Company filed a consolidated federal income tax return with LNC. Under an agreement with LNC, the Company provided for income taxes as though a separate return was being filed and the taxes computed were remitted to or collected from LNC.

6. NOTES PAYABLE

In connection with the reorganization (see Note 1), the Company issued, on March 4, 1994, a $50,000,000 term note payable to Lincoln Life. The principal amount of the term note is payable in full on or before December 31, 1996. The term note bears interest at a variable rate equal to .75% over the three-month LIBOR rate, adjusted quarterly. The average rate of interest in effect during the year ended December 31, 1994 was 5.36%. Interest is payable quarterly through the end of the loan term.

The term note is secured by a pledge of 20.0% of the outstanding common stock of EHI. In addition, the term note contains restrictive covenants, which, among other things, limit the acquisition or disposition of assets or business units by EMPHESYS and the repurchase or redemption of EMPHESYS' common stock. The term note also contains covenants which impose borrowing limits on the Company based on the achievement of certain financial targets and requires the maintenance of minimum levels of capital and surplus for EHI.

The Company has also borrowed to finance the acquisition of computer equipment. This note payable has an outstanding balance of $5,321,000 at December 31, 1994 and bears interest at 6.17%. This note is due in equal monthly installments of $125,000, including accrued interest, through January 1, 1999. The note payable is secured by a security interest in the underlying equipment. In connection with the acquisition of certain businesses, the Company assumed liabilities, principally to the former owners of the acquired businesses. These notes total $627,000 at December 31, 1994 and bear interest at rates from 8.5% to 10.0%. The notes are due in monthly installments of principal and interest through July 1999. The Company believes the carrying value of all notes payable approximates their fair value. Annual principal amounts due under all notes for the years following December 31, 1994 are as follows (in thousands):

1995	$ 1,433
1996	51,496
1997	1,449
1998	1,536
1999	33
	$ 55,947

EHI has an unsecured line of credit agreement with a commercial bank with maximum borrowings of $20,000,000 which expires November 14, 1995. Borrowings under the agreement bear interest at 1% below the bank's prime rate. The agreement contains certain conditions including, but not limited to, restrictions on additional indebtedness of EHI and guarantees of the debt of others. In addition, the agreement requires EHI to maintain a minimum statutory capital and surplus of $200,000,000. At December 31, 1994, the Company had no borrowings under this agreement.

7. LEASES

The Company leases certain office space, automobiles and computer equipment under operating leases. Rent expense was $7,247,000, $7,060,000 and $5,540,000 in 1992, 1993 and 1994, respectively. Future minimum lease payments under noncancellable operating leases for the years following December 31, 1994 are as follows (in thousands):

1995	$ 4,498

1996	3,485
1997	2,504
1998	985
1999	897
Thereafter	1,712
Total minimum lease payments	$ 14,081

8. REINSURANCE

The Company reinsures portions of its business through various reinsurance treaties. Under terms of the agreements, the Company generally retained $250,000, $350,000 and $500,000 of each accident and health insurance risk written in 1992, 1993 and 1994, respectively. Premiums paid for reinsurance ceded totalled $19,022,000, $14,994,000 and $13,161,000 during 1992, 1993 and 1994, respectively. Included in these amounts are premiums paid to Lincoln Life for reinsurance ceded of $1,116,000, $1,468,000 and $7,258,000 for 1992, 1993 and 1994, respectively. Although the reinsurer in each case is primarily liable for the insurance ceded, the Company remains liable to the insured whether or not the reinsurer meets its contractual obligations.

In addition, the Company assumes certain accident and health and life business, principally from Lincoln Life. Amounts related to reinsurance assumed are as follows:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Premiums assumed from Lincoln Life	$ 319,668	$ 322,158	$ 339,712
Premiums assumed from others	-	-	8,101
Service charges to Lincoln Life	5,027	2,787	2,564
Premium taxes to Lincoln Life	6,997	7,068	7,157
Commissions to Lincoln Life	31,226	30,710	31,773

Amounts payable to Lincoln Life in connection with these contracts at December 31, 1993 and 1994 totalled $1,706,000.

Effective January 1, 1995, the Company entered into an escrow agreement which provides Lincoln Life with a security interest in a portion of the Company's investment securities in an amount based on the claims liabilities associated with the group health, accident, disability and life business assumed from Lincoln Life. The escrow agreement does not affect the Company's ability to collect income or principal payments, dispose of or substitute investment securities which are pledged, subject to certain requirements relating to the credit quality, issuer and maturity of the pledged securities. On January 1, 1995, securities with a cost and fair value of $62,419,000 and $61,763,000, respectively, were pledged under the escrow agreement.

9. EMPLOYEE BENEFIT PLANS

PROFIT SHARING 401(K) PLAN AND TRUST

The Company's employees are included in a defined contribution plan (the "Plan") with profit-sharing and discretionary savings provisions covering all eligible salaried and hourly employees. Employees become eligible on the semi-annual entry date (January 1 or July 1). Prior to August 1, 1994, participant contributions up to 5% of the participant's compensation were matched by the Company on a scale between 20% and 50% based on the participant's length of service. Subsequent to August 1, 1994, the matching scale was amended to 100% of the first 2% of a participant's compensation and between 50% and 100% of the next 4% of a participant's compensation based on achievement of certain Company growth and profitability criteria. Matching contributions are made in the form of Company stock. The expense related to the matching provision of the Company's discretionary savings plan was $729,000, $900,000 and $1,913,000 for 1992, 1993 and 1994, respectively.

Profit-sharing contributions to the Plan are determined annually by the Company's Board of Directors. Profit-sharing contributions may be made in the form of cash or Company stock or any combination thereof. The expense associated with the Company's profit-sharing contribution was $5,210,000, $6,805,000 and $6,240,000 in 1992, 1993 and 1994, respectively.

POST-RETIREMENT HEALTH PLAN

The Company sponsors an unfunded, post-retirement defined benefit health and life insurance plan for all full-time employees who are at least 55 years old and their eligible dependents. Coverage is coordinated with Medicare when an employee reaches age 65. The Company's contribution to the retiree's health insurance premium is 50% of premium upon completion of 15 years of credited service and increases ratably to 100% after 40 years of credited service. The Company has the ability to change these benefits at any time.

The following table presents the funded status of the post-retirement benefit plans, reconciled with the liability recognized on the Company's balance sheet at the dates indicated:

	December 31,	
	1993	1994
	(in thousands)	
Accumulated post-retirement benefit obligation:		
Retirees and dependents	$ 261	$ 256
Active plan participants:		
Fully eligible	497	813
Other	6,602	7,904
	7,360	8,973
Plan assets	-	-
Accumulated post-retirement benefit obligation in excess of plan assets	7,360	8,973
Unrecognized net loss due to change in assumptions	(193)	(207)
Accrued liability for post-retirement benefits other than pensions, included in accrued expenses and other liabilities	$ 7,167	$ 8,766

The components of net periodic post-retirement benefit cost, excluding the cumulative effect of initially adopting SFAS No. 106 in 1993, is comprised of the following:

	For the Year Ended December 31,		
	1992	1993	1994
		(in thousands)	
Service cost	$ 51	$ 905	$ 1,090
Interest cost	-	440	551
Amortization of net loss from change in assumptions	-	-	9
Net periodic post-retirement benefit cost	$ 51	$ 1,345	$ 1,650

The cost for post-retirement benefits for the year ended December 31, 1992 is prior to the adoption of SFAS No. 106 and, therefore, represents the total amount of benefits actually paid. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5% at December 31, 1993 and 8.0% at December 31, 1994 and the assumed rate of compensation increase was 5.0% at December 31, 1993 and 5.5% at December 31, 1994. The healthcare cost trend rate at December 31, 1993 was 11.5% graded down over ten years to 5.5% and at December 31, 1994, 11.5% graded down over ten years to 6.0%. A one percentage point increase in the assumed healthcare cost trend rate would have increased the accumulated benefit obligation by $2,683,000 at December 31, 1994 and the aggregate service and interest cost components of projected net periodic post-retirement benefits cost for 1994 by $492,000. The Company amortizes experience gains and losses straight line over the estimated average future service periods of the active participants expected to receive benefits.

Excluding the cumulative effect of initial adoption, the impact of adopting the statement was to increase net periodic post-retirement benefit cost by $1,294,000 and $1,599,000 in 1993 and 1994, respectively, and to decrease income before cumulative effect of changes in accounting principle by $841,000 in 1993 and $1,007,000 in 1994. Net income for 1992 has not been restated for the accounting change.

STOCK INCENTIVE PLAN

The Company maintains a stock incentive plan for key employees which provides for the issuance of stock options, stock appreciation rights, restricted stock awards and stock incentive awards. Stock options granted under the plan may be designated as either non-qualified or incentive stock options and have an exercise price at least equal to the market value of the Company's stock on the date of grant. The options generally vest over a four-year period and, subject to termination of employment, expire ten years from the date of grant.

Information with respect to the stock incentive plan is as follows:

	Shares Available For Grant	Options Outstanding Shares	Average Option Price
Balance at March 21, 1994			
(inception of plan)	819,693	-	
Options granted	(188,600)	188,600	$ 22.06
Options exercised	-		
Options expired	-		
Restricted stock awarded	(148,571)		
Balance at December 31, 1994	482,522	188,600	$ 22.06

Shares under option agreements which become exercisable on January 1, 1995 totalled 47,150.

10. RELATED-PARTY TRANSACTIONS

Short-term investments aggregating $8,000,000 at December 31, 1993 were invested in LNC's short-term investment pool. Interest earned on these investments totalled $416,000, $771,000 and $127,000 during 1992, 1993 and 1994, respectively. The Company's investment in commercial mortgages consists principally of participating interests in loans originated and serviced by LNC.

The Company pays amounts to LNC for management, administrative and other services. The Company believes that amounts paid to LNC are, in the aggregate, comparable to amounts which would have been paid to independent third parties for similar services. These amounts are summarized as follows:

	For the Year Ended December 31, 1992	1993	1994
		(in thousands)	
Investment management fees	$ 266	$ 444	$ 670
Agent compensation	1,512	1,822	1,735
Management services	3,152	3,507	1,923
Corporate insurance premiums	5,027	2,274	441
	$ 9,957	$ 8,047	$ 4,769

11. RESTRICTIONS ON STOCKHOLDERS' EQUITY

In connection with requirements prescribed by the Insurance Department of the State of Wisconsin ("OCI"), EHI is required to maintain minimum levels of statutory capital and surplus. A reconciliation of EHI's statutory capital and surplus to amounts reported under generally accepted accounting principles is as follows:

	December 31, 1993	1994
	(in thousands)	
Amounts reported on a statutory basis	$ 235,642	$286,174
Adjustments:		
Intangible assets	52,297	47,946
Unrealized gain (loss) on investments	41,144	(20,090)
Deferred income taxes	15,837	29,777
Receivables from affiliates	1,219	6,358
Non-admitted assets	10,404	12,601
Post-retirement benefit obligation	(6,602)	(7,904)
Statutory investment valuation reserves	5,788	6,704
Other	(15,414)	(13,648)
Amounts as reported under generally accepted accounting principles	$ 340,315	$ 347,918

At December 31, 1994, EHI's statutory security surplus requirement was $151,571,000 and EHI's statutory capital and surplus was $286,174,000 which exceeded the security surplus requirement by $134,603,000. Statutory net income was $41,238,000, $58,295,000 and $71,771,000 in 1992, 1993 and 1994, respectively.

EHI is required to prepare its statutory financial statements in accordance with accounting practices prescribed or permitted by the OCI. Prescribed statutory accounting practices include those set forth in a variety of publications of the National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices accepted by the OCI in statutory-basis filings not so prescribed. The Company prepares its statutory financial statements solely on the basis of prescribed accounting practices.

Wisconsin insurance laws and regulations require that, with respect to EHI, any dividend, together with other dividends paid in the preceding 12 months, that exceeds the lesser of (1) 10% of statutory surplus at the end of the prior year or (2) the total net gain from operations of the insurer for the preceding calendar year, less realized capital gains for such year, is deemed "extraordinary" and must receive the written prior approval of the OCI. After taking into account dividends paid through December 31, 1994, EHI would be able to pay approximately $16,516,000 in dividends without being subject to the restrictions governing payment of extraordinary dividends. The Wisconsin statutes require a report of all other distributions to stockholders other than a stock dividend at least thirty days prior to payment.

12. CONTINGENT LIABILITIES

The Company is involved in various pending or threatened legal proceedings arising from the normal conduct of business. It is management's opinion that these proceedings ultimately will be resolved without materially affecting the financial position of the Company.

13. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 1994 and 1993:

	Quarter Ended			
	MAR 31	JUN 30	SEP 30	DEC 31
	(in millions, except per share data)			
1994				
Revenues:				
Premiums	$ 336.8	$ 341.2	$ 346.8	$ 362.0
Net investment income	12.1	11.8	12.2	12.5
Realized gain on investments	0.5	0.1	-	0.9
Administrative fees and other	4.9	5.5	7.3	7.7
Total revenues	354.3	358.6	366.3	383.1
Policy benefits and expenses:				
Policy benefits paid or provided	246.0	248.4	253.2	272.7
Salaries and other operating expenses	53.1	54.6	56.3	58.5
Commissions	28.3	26.3	27.1	27.5
Amortization of intangible assets	1.1	1.3	1.5	1.5
Interest expense	0.2	0.7	0.9	1.0
Total benefits and expenses	328.7	331.3	339.0	361.2
Income before federal income taxes	25.6	27.3	27.3	21.9
Federal income taxes	9.5	10.1	10.0	8.2
Net income	$ 16.1	$ 17.2	$ 17.3	$ 13.7
Net income per common and common equivalent share	$ 0.95	$ 1.01	$ 1.01	$ 0.80

	Quarter Ended			
	MAR 31	JUN 30	SEP 30	DEC 31
	(in millions, except per share data)			
1993				
Revenues:				
Premiums	$ 300.8	$ 302.8	$ 311.9	$ 324.3
Net investment income	11.0	11.5	11.8	13.1
Realized gain on				

investments	0.1	0.5	0.6	0.9
Administrative fees and other	4.0	2.9	4.6	3.9
Total revenues	315.9	317.7	328.9	342.2
Policy benefits and expenses:				
Policy benefits paid or provided	229.1	224.5	216.7	249.0
Salaries and other operating expenses	44.8	47.1	50.4	50.4
Commissions	25.0	23.2	24.8	25.6
Amortization of intangible assets	0.4	1.6	1.0	1.0
Total benefits and expenses	299.3	296.4	292.9	326.0
Income before taxes and cumulative effect of changes in accounting principle	16.6	21.3	36.0	16.2
Federal income taxes	5.5	7.3	13.0	6.3
Income before cumulative effect of changes in accounting principle	11.1	14.0	23.0	9.9
Cumulative effect of changes in accounting principle (1)	(2.8)	-	-	-
Net income	$ 8.3	$ 14.0	$ 23.0	$ 9.9
Net income per common and common equivalent share (2)	$ 0.49	$ 0.83	$ 1.35	$ 0.58

(1) Reflects the cumulative effect of the adoption of SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions" of $(3.9) million and SFAS No. 109, "Accounting for Income Taxes" of $1.1 million.

(2) Determined assuming 17,000,000 shares of common stock are outstanding.

INTRODUCTION TO PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Upon the terms and subject to the conditions set forth in the Offer to Purchase, dated August 16, 1995, (the "Offer"), HEW, Inc., a Delaware corporation (the "Offeror") and a wholly owned subsidiary of Humana Inc., a Delaware corporation (the "Company"), offered to purchase all outstanding shares of common stock, par value $0.01 per share (the "Shares"), of EMPHESYS Financial Group, Inc., a Delaware corporation ("EMPHESYS"), at a purchase price of $37.50 per Share, net to the seller in cash, without interest (the "Offer Price").

The Offer was made pursuant to the Agreement and Plan of Merger, dated as of August 9, 1995 (the "Merger Agreement"), among the Company, the Offeror and EMPHESYS. The Merger Agreement provided, among other things, that as soon as practicable after the purchase of Shares pursuant to the Offer and the satisfaction of the other conditions set forth in the Merger Agreement and in accordance with the relevant provisions of the General Corporation Law of the State of Delaware (the "DGCL"), the Offeror would be merged with and into EMPHESYS (the "Merger").

As a result of all conditions of the tender offer being met, including obtaining all necessary regulatory approvals and the attainment by EMPHESYS of certain specified financial and operational targets, the tender offer was closed and all shares tendered were acquired on October 11, 1995. At the close of the tender offer, 16,890,756 or 99 percent of the Shares were acquired. Under the DGCL, if 90 percent or more of the Shares are acquired, the Merger can be consummated without the vote of the remaining stockholders. The Merger was consummated on October 13, 1995. At the effective time of the Merger, each remaining issued and outstanding Share not purchased in the tender offer was converted into and represented the right to receive the Offer Price. Following consummation of the Merger, EMPHESYS continued as the surviving corporation and became a wholly owned subsidiary of the Company.

The aggregate purchase price of approximately $650 million was funded by the Company through available cash, the sale of selected marketable securities and bank borrowings. The bank borrowings of approximately $250 million were pursuant to a credit agreement as amended and restated dated as of September 26, 1995, among the Company, Chemical Bank, as agent, and several other banks (the "Credit Agreement"). The Credit Agreement, which expires September 25, 2000, provides for a $600 million revolving line of credit. Principal amounts outstanding under the Credit Agreement bear interest based upon the consolidated capitalization ratio (defined as total debt divided by total debt plus net worth) at rates ranging from LIBOR plus 16 basis points to LIBOR plus 40 basis points, although the facility also provides for an auction process which could result in lower rates. The Credit Agreement contains customary covenants and events of default.

The unaudited pro forma condensed consolidated balance sheet of the Company and EMPHESYS (collectively the "Combined Entities") as of June 30, 1995, presents the financial position of the Combined Entities assuming the Merger had occurred on June 30, 1995. Prior to June 30, 1995, EMPHESYS' historical balance sheet had been presented on an unclassified basis. As a result of the Merger, EMPHESYS' balance sheet was classified between short-term and long-term assets and liabilities to conform with the Company's presentation. The unaudited pro forma condensed consolidated statements of income of the Combined Entities for the six months ended June 30, 1995, and for the year ended December 31, 1994, present the results of operations of the Combined Entities assuming the Merger and related transactions had occurred on January 1, 1994. All material adjustments required to reflect the Merger and related transactions are set forth in the "Pro Forma Adjustments" column. The pro forma adjustments are based on preliminary assumptions of the allocation of the purchase price and are subject to substantial revision once appraisals, evaluations and other studies of the fair value of EMPHESYS' assets and liabilities are completed. Actual purchase accounting adjustments may differ from the pro forma adjustments presented herein.

INTRODUCTION TO PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements of the Company and EMPHESYS. The pro forma data is for informational purposes only and may not necessarily reflect future results of operations and financial position or what the results of operations or financial position would have been had the Company and EMPHESYS merged at the beginning of the periods presented.

Humana Inc.
Pro forma Condensed Consolidated Balance Sheet
June 30, 1995
(Unaudited)
(Dollars in millions except per share amounts)

	Historical			Humana
	Humana	EMPHESYS	Pro forma Adjustments	Pro forma Combined
Assets				
Current assets:				
Cash and cash equivalents	$ 447	$ 14	$ (155)(a)	$ 306
Marketable securities	528	586		1,114
Premiums receivable, net	80	17		97
Deferred income taxes	42	21	8 (b)	71
Other	64	18		82
Total current assets	1,161	656	(147)	1,670

Property and equipment, net	320	48	15 (c)	383
Long-term marketable securities	388	67	(250)(a)	205
Cost in excess of net assets acquired	159	56	251 (d)	466
Deferred income taxes	50	2	(33)(b)	19
Other	85	7	70 (e)	162
Total Assets	$ 2,163	$ 836	$ (94)	$ 2,905
Liabilities and Common Stockholders' Equity				
Current liabilities:				
Medical costs payable	$ 554	$ 263	$ 10 (f)	$ 827
Trade accounts payable and accrued expenses	166	46	10 (g)	222
Unearned premium revenues	127	30		157
Income taxes payable	52	9		61
Total current liabilities	899	348	20	1,267
Long-term debt	1	56	250 (h)	307
Professional liability and other obligations	87	68		155
Total liabilities	987	472	270	1,729
Contingencies				
Common stockholders' equity:				
Common stock,$.16 2/3 par; authorized 300,000,000 shares; issued and outstanding 161,820,165 shares	27	1	(1)(i)	27
Other	1,149	363	(363)(i)	1,149
Total common stockholders' equity	1,176	364	(364)	1,176
Total Liabilities and Common Stockholders' Equity	$ 2,163	$ 836	$ (94)	$ 2,905

See notes to pro forma condensed consolidated financial statements.

Humana Inc.
Pro forma Condensed Consolidated Statement of Income
For the six months ended June 30, 1995
(Unaudited)
(Dollars in millions except per share results)

	Historical Humana	Historical EMPHESYS	Pro forma Adjustments	Humana Pro forma Combined
Revenues:				
Premiums	$ 2,073	$ 782		$ 2,855
Interest	38	27	$ (10)(j)	55
Other income	7	17	-	24
Total revenues	2,118	826	(10)	2,934
Operating expenses:				
Medical costs	1,686	587	-	2,273
Selling, general and administrative	250	180		430
Depreciation and amortization	30	8	9 (k)	47
Total operating expenses	1,966	775	9	2,750
Income from operations	152	51	(19)	184
Interest expense	4	2	8 (l)	14
Income before income taxes	148	49	(27)	170
Provision for income taxes	50	18	(9)(m)	59
Net income	$ 98	$ 31	$ (18)	$ 111
Earnings per common share	$ 0.60	$ 0.19	$ (0.11)	$ 0.68
Weighted average common shares outstanding (000's)	162,148	162,148	162,148	162,148

See notes to pro forma condensed consolidated financial statements.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
As of and for the six months ended June 30, 1995
(Unaudited)

Note 1: Pro forma Adjustments - Condensed Consolidated Balance Sheet as of June 30, 1995

(a) To record the use of existing cash and cash equivalents and long-term marketable securities necessary to finance a portion of the acquisition costs.

(b) To record deferred taxes associated with the identifiable intangibles, the revaluation of property and equipment and additional medical claims and accrued liabilities.

(c) To record the revaluation of property and equipment acquired to estimated fair market value.

(d) To record the purchase price in excess of net tangible and identifiable intangible assets acquired.

(e) To record the fair value of identifiable intangible assets acquired.

(f) To record additional medical costs payable, necessary to conform EMPHESYS' actuarial method used to determine medical costs payable with the Company's actuarial method.

(g) To record estimated liabilities associated with the acquisition transaction including severance, lease terminations and the discontinuance of certain non-core businesses.

(h) To record bank borrowings necessary to finance the remaining portion of the acquisition cost.

(i) To eliminate the acquired equity of EMPHESYS as of June 30, 1995.

Note 2: Pro forma Adjustments - Condensed Consolidated Statement of Income for the six months ended June 30, 1995.

(j) To reduce interest income for the estimated forgone interest income resulting from the use of cash and cash equivalents and marketable securities to finance the acquisition. The calculation is based upon the nominal monthly portfolio yield for investments held by the Company (at the parent level) over the six-month period.

(k) To record depreciation and amortization related to property and equipment, identifiable intangible assets and the excess of purchase price over net tangible assets acquired. Identifiable intangible assets will be amortized over 10 years and the excess of purchase price over net assets acquired will be amortized over 40 years. Acquired property and equipment (primarily buildings) will be depreciated over 30 years, the estimated remaining useful life.

(l) To recognize estimated interest expense related to bank borrowings necessary to finance the acquisition. The bank borrowings have an assumed interest rate of LIBOR plus 3/8 percent over the six month period.

Note 3: Income Taxes

(m) Estimated pro forma income taxes were recorded at an assumed combined federal and state income tax rate of 34.6 percent.

Humana Inc.
Pro forma Condensed Consolidated Statement of Income
For the year ended December 31, 1994
(Unaudited)
(Dollars in millions except per share results)

	Historical		Pro forma	Humana Pro forma
	Humana	EMPHESYS	Adjustments	Combined
Revenues:				
Premiums	$ 3,576	$ 1,387		$ 4,963
Interest	62	50	$ (16)(a)	96
Other income	16	25	-	41
Total revenues	3,654	1,462	(16)	5,100
Operating expenses:				
Medical costs	2,918	1,020	-	3,938
Selling, general and administrative	436	323		759
Depreciation and				

amortization	50	14	17 (b)	81
Restructuring and unusual charges	18	-		18
Total operating expenses	3,422	1,357	17	4,796
Income from operations	232	105	(33)	304
Interest expense (recovery)	(25)	3	12 (c)	(10)
Income before income taxes	257	102	(45)	314
Provision for income taxes	81	38	(15)(d)	104
Net income	$ 176	$ 64	$ (30)	$ 210
Earnings per common share	$ 1.10	$ 0.40	$ (0.19)	$ 1.31
Weighted average common shares outstanding (000's)	160,911	160,911	160,911	160,911

See notes to pro forma condensed consolidated statement of income.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED
STATEMENT OF INCOME
For the year ended December 31, 1994
(Unaudited)

Note 1: Pro forma Adjustments

(a) To reduce interest income for the estimated forgone interest income resulting from the use of cash and cash equivalents and marketable securities to finance the acquisition. The calculation is based upon the nominal monthly portfolio yield for investments held by the Company (at the parent level) over the twelve-month period.

(b) To record depreciation and amortization related to property and equipment, identifiable intangible assets and the excess of purchase price over net tangible assets acquired. Identifiable intangible assets will be amortized over 10 years and the excess of purchase price over net assets acquired will be amortized over 40 years. Acquired property and equipment (primarily buildings) will be depreciated over 30 years, the estimated remaining useful life.

(c) To recognize estimated interest expense related to bank borrowings necessary to finance the acquisition. The bank borrowings have an assumed interest rate of LIBOR plus 3/8 percent over the twelve month period.

Note 2: Income Taxes

(d) Estimated pro forma income taxes were recorded at an assumed combined federal and state income tax rate of 33 percent.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

2.1 Offer to Purchase, dated August 16, 1995. Exhibit (a)(1) to the Company's Schedule 14D-1 and 13D dated August 16, 1995, is incorporated by reference herein.

2.2 Agreement and Plan of Merger, dated August 9, 1995 among the Company, EMPHESYS and HEW, Inc. Exhibit (a)(10) to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.3 Stock Option and Tender Agreement, dated as of August 9, 1995, among the Company, Lincoln National Corporation and American States Insurance Company. Exhibit (c)(1) to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.4 Amendment No. 1 dated August 24, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.5 Amendment No. 2 dated August 30, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.6 Amendment No. 3, dated September 15, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.7 Amendment No. 4, dated September 28, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.8 Amendment No. 5, dated October 3, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.9 Amendment No. 6, dated October 10, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

2.10 Amendment No. 7, dated October 12, 1995, to the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

20.1 Credit Agreement, dated as of January 12, 1994, as amended by an Agreement and Amendment dated as of October 27, 1994, an Amendment dated as of August 1, 1995, and an Amendment and Restatement dated as of September 26, 1995 among Chemical Bank as Agent, the Banks party thereto, and the Company. Exhibit (b)(2) to Amendment No. 4 of the Company's Schedule 14D-1 and 13D is incorporated by reference herein.

23.1 Consent of Ernst and Young LLP, Independent Auditors.

SIGNATURE

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 hereunto duly authorized.

Humana Inc.

Date: October 25, 1995

/s/James E. Murray
James E. Murray
Vice President and
Controller (Principal
Accounting Officer)

Exhibit 23.1

Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the registration statements of Humana Inc. (Form S-8 No. 2-39061, No. 2-79239, No. 2-96154, No. 33-33072, No. 33-49305, No. 33-52593 and No. 33-54455), of our report dated January 27, 1995, included in the 1994 Annual Report to Stockholders of EMPHESYS Financial Group, Inc.

Ernst & Young LLP
Milwaukee, Wisconsin
October 20, 1995