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 March 31, 1995

OR

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

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 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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 May 10, 1995 |
|---|---|
| $.16 2/3 par value | 161,742,420 shares |

Part I: Financial Information

Item 1. Financial Statements



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

Part II: Other Information





HUMANA INC.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the quarters ended March 31, 1995 and 1994
Unaudited
(Dollars in millions, except per share results)

| | 1995 | 1994 |
|---|---|---|
| Revenues: | | |
| Premiums | $ 1,025 | $ 853 |
| Interest | 19 | 13 |
| Other income | 4 | 3 |
| Total revenues | 1,048 | 869 |
| Operating expenses: | | |
| Medical costs | 826 | 703 |
| Selling, general and administrative | 125 | 102 |
| Depreciation and amortization | 15 | 12 |
| Total operating expenses | 966 | 817 |
| Income from operations | 82 | 52 |
| Interest expense | 2 | 1 |
| Income before income taxes | 80 | 51 |
| Provision for income taxes | 27 | 19 |
| Net income | $ 53 | $ 32 |
| Earnings per common share | $ .32 | $ .20 |
| Shares used in earnings per common share computation (000) | 162,040 | 160,482 |

See accompanying notes.

HUMANA INC.
CONDENSED CONSOLIDATED BALANCE SHEET
Unaudited
(Dollars in millions, except per share amounts)

| | March 31, 1995 | December 31, 1994 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 459 | $ 272 |
| Marketable securities | 564 | 609 |
| Premiums receivable, less allowance for loss of $19 - March 31, 1995 and $20 - December 31, 1994 | 79 | 74 |
| Deferred income taxes | 46 | 45 |
| Other | 51 | 38 |
| Total current assets | 1,199 | 1,038 |
| Property and equipment, net | 318 | 317 |
| Long-term marketable securities | 357 | 322 |
| Cost in excess of net tangible assets acquired | 154 | 155 |
| Deferred income taxes | 52 | 56 |
| Other | 67 | 69 |
| Total assets | $2,147 | $1,957 |
| **LIABILITIES AND COMMON STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Medical costs payable | $ 545 | $ 527 |
| Trade accounts payable and accrued expenses | 190 | 233 |
| Unearned premium revenues | 122 | |
| Income taxes payable | 81 | 56 |
| Total current liabilities | 938 | 816 |
| Long-term obligations | 86 | 83 |
| Total liabilities | 1,024 | 899 |
| Contingencies | | |
| Common stockholders' equity: | | |
| Common stock, $.16 2/3 par; authorized 300,000,000 shares; issued and outstanding 161,701,945 shares - March 31, 1995 and 161,330,064 shares - December 31, 1994 | 27 | 27 |
| Other | 1,096 | 1,031 |
| Total common stockholders' equity | 1,123 | 1,058 |
| Total liabilities and common stockholders' equity | $2,147 | $1,957 |

See accompanying notes.



HUMANA INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the quarters ended March 31, 1995 and 1994
Unaudited
(Dollars in millions)

| | 1995 | 1994 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 53 | $ 32 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 15 | 12 |
| Deferred income taxes | (2) | (4) |
| Changes in operating assets and liabilities | 108 | 106 |
| Other | | 2 |
| Net cash provided by operating activities | 174 | 148 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (12) | (14) |
| Acquisition of health plan assets | | (36) |
| Disposition of property and equipment | | 5 |
| Change in marketable securities | 23 | (85) |
| Other investing activities | (1) | (21) |
| Net cash provided by (used in) investing activities | 10 | (151) |
| Cash flows from financing activities: | | |
| Other | 3 | 1 |
| Net cash provided by financing activities | 3 | 1 |
| Increase (decrease) in cash and cash equivalents | 187 | (2) |
| Cash and cash equivalents at beginning of period | 272 | 372 |
| Cash and cash equivalents at end of period | $ 459 | $ 370 |
| Interest payments | $ 1 | |

| | | |
|---|---|---|
| Income tax payments, net | 2 | $ 1 |

See accompanying notes.



HUMANA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

(A) Basis of Presentation

The accompanying financial statements are presented in accordance with the requirements of Form 10-Q and consequently 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. Accordingly, for further information, the reader of this Form 10-Q may wish to refer to the Form 10-K of Humana Inc. (the "Company") for the year ended December 31, 1994.

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.

(B) Contingencies

The Company provides medical services to Medicare risk members under contracts with the Health Care Financing Administration ("HCFA") that are renewed for a one-year term each December 31 unless terminated 90 days prior thereto. The loss of these contracts or significant changes in the Medicare program 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. Effective January 1, 1995, the average rate of increase under these contracts approximated 6 percent. Over the last five years, annual increases have ranged from as low as 2 percent in January 1991 to as high as 12 percent in January 1993, with an average of 6 percent.

During 1994, the Company's South Florida health plan (the "Plan") was denied accreditation by the National Committee for Quality Assurance ("NCQA"). In addition, HCFA notified the Company regarding its separate investigation of the Plan, that the Plan was not fully meeting data collection and use requirements in the areas of utilization management, quality assurance and availability/accessibility. The Company has begun various corrective action procedures developed jointly with regulatory agencies to resolve the issues identified and expects no material effects on its results of operations, financial position or cash flows as a result of the HCFA investigation or NCQA accreditation denial.

Resolution of various loss contingencies, including litigation pending against the Company in the ordinary course of business, is not expected to have a material adverse effect on its results of operations, financial position or cash flows.

The Company offers managed health care products which integrate management with the delivery of health care services through a network of providers who share financial risk or who have incentives to deliver quality, cost-effective medical services. These products are marketed primarily through health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs") that encourage or require use of contracting providers. HMOs and PPOs also control health care costs by various means including the use of utilization controls such as pre-admission approval for hospital inpatient services and pre-authorization of outpatient surgical procedures.

The Company's HMO and PPO products are primarily marketed to employer and other groups ("Commercial") as well as Medicaid and Medicare-eligible individuals. The products marketed to Medicare-eligible individuals are either HMO products that provide managed care services which include all Medicare benefits and, in certain circumstances, additional managed care services that are not included in Medicare benefits ("Medicare risk") or indemnity insurance policies that supplement Medicare benefits ("Medicare supplement").

## Results of Operations

The Company's premium revenues increased 20 percent to $1 billion for the quarter ended March 31, 1995, compared to $853 million for the same period in 1994. This growth was due to same-store membership gains, a 5.7 percent increase in Medicare risk premium rates, and the 1994 acquisitions of CareNetwork, Inc. and Group Health Association. Premium revenues associated with these acquisitions totaled approximately $84 million for the quarter ended March 31, 1995, compared to approximately $17 million during the first quarter of 1994.

Membership in the Company's Commercial products increased 136,300 or 9 percent during the first quarter ended March 31, 1995. On a same-store basis, Commercial membership for the quarter ended March 31, 1995, increased 131,700 compared to 120,000 for all of 1994. The Company also added 5,100 Medicare risk members and 134,900 members in its administrative services product. Medicare supplement membership declined 5,600 members during the quarter ended March 31, 1995, as anticipated, continuing the decline first experienced in 1993. For all of 1995, the Company anticipates combined Commercial and Medicare risk product membership gains in excess of 10 percent.

The medical loss ratio for the quarter ended March 31, 1995, was 80.6 percent compared to 82.4 percent for the same period in 1994. The improvement was primarily due to decreased hospital utilization in both the Commercial and Medicare risk products. Patient days per thousand members for the quarter ended March 31, 1995, decreased 5 percent from the same period a year ago to 274 days per thousand for the Commercial product and 6 percent to 1,507 days per thousand for the Medicare risk product. In addition, the Medicare risk premium rate increase of 5.7 percent exceeded the rate of growth of physician and other medical services costs in this product, which resulted in an improvement in the overall loss ratio. Because the Company does not expect Commercial product premium rate increases for the remainder of 1995, additional improvements in hospital and other medical services costs are necessary to achieve further reductions in the medical loss ratio.

The administrative cost ratio was 13.7 percent and 13.4 percent for the quarters ended March 31, 1995 and 1994, respectively. The increase is the result of increased marketing efforts, costs associated with the integration of acquired plans and the expansion of market service areas. Although the Company expects these types of costs to continue, the administrative cost ratio is expected to decline during the latter part of 1995 as a result of membership growth.

Interest income totaled $19 million and $13 million for the quarters ended March 31, 1995 and 1994, respectively. The increase is attributable to higher yields earned in the first quarter of 1995 compared to the first quarter of 1994, as well as increased levels of cash, cash equivalents and marketable securities. The tax equivalent yield on invested assets approximated 8 percent and 6 percent for the quarters ended March 31, 1995 and 1994, respectively.

The Company's income before income taxes totaled $80 million for the quarter ended March 31, 1995, compared to $51 million for the quarter ended March 31, 1994. Net income increased to $53 million or $.32 per share from $32 million or $.20 per share for the quarters ended March 31, 1995 and 1994, respectively.

## Liquidity

Cash provided by the Company's operations totaled $174 million and $148 million for the quarters ended March 31, 1995 and 1994, respectively. The timing of the receipt of Medicare risk premiums increased cash provided by operations by $122 million for the quarter ended March 31, 1995 compared to $6 million for the same period in 1994. Excluding the effect of the timing of Medicare risk premiums, cash provided by operations was $52 million and $142 million for the quarters ended March 31, 1995 and 1994, respectively. This decrease in cash provided by operations was primarily attributable to the timing of payments for medical costs and other payables, partially offset by increased net income.

The Company's subsidiaries operate in states which require certain 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 that the subsidiaries' ability to pay dividends to the Company requires regulatory approval. At March 31, 1995, and December 31, 1994, the Company had approximately $250 million and $220 million of unrestricted cash, cash equivalents and marketable securities, respectively.

Management believes that existing working capital, including the aforementioned unrestricted funds, future operating cash flows, and the availability of a $350 million line of credit are sufficient to meet future liquidity needs, allow the Company to pursue acquisition and expansion opportunities and fund capital requirements.





## Capital Resources

The Company's ongoing capital expenditures relate primarily to the addition or expansion of medical care facilities used by either employed or affiliated physicians as well as administrative facilities and related computer information systems necessary for activities such as claims processing, billing and collections, medical utilization review and customer service.

Excluding acquisitions, planned capital spending in 1995 will approximate $45 million to $50 million compared to $39 million in 1994. Management believes that its capital spending program is adequate to expand, improve and equip its existing business.





| | 1995 | 1994 |
|---|---|---|
| Commercial members enrolled at: | | |
| March 31 | 1,664,600 | 1,381,100 |
| June 30 | | 1,386,100 |
| September 30 | | 1,408,800 |

| | | |
|---|---|---|
| December 31 | | 1,528,300 |
| | | |
| Medicare risk members enrolled at: | | |
| March 31 | 292,500 | 276,600 |
| June 30 | | 281,200 |
| September 30 | | 286,400 |
| December 31 | | 287,400 |
| | | |
| Medicare supplement members enrolled at: | | |
| March 31 | 126,100 | 144,100 |
| June 30 | | 139,000 |
| September 30 | | 134,700 |
| December 31 | | 131,700 |
| | | |
| Administrative services members enrolled at: | | |
| March 31 | 228,400 | 75,500 |
| June 30 | | 81,300 |
| September 30 | | 79,100 |
| December 31 | | 93,500 |
| | | |
| Total members enrolled at: | | |
| March 31 | 2,311,600 | 1,877,300 |
| June 30 | | 1,887,600 |
| September 30 | | 1,909,000 |
| December 31 | | 2,040,900 |



P

art II: Other Information

Items 1 - 3:

None

Item 4: Submission of Matters to a Vote of Security Holders

(a) The regular annual meeting of stockholders of Humana Inc. was held in Louisville, Kentucky on May 11, 1995 for the purpose of electing the board of directors.

(b) Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitations. All of management's nominees for directors were elected as follows:

| Name | For | Withheld |
|---|---|---|
| K. Frank Austen, M.D. | 142,430,435 | 282,836 |
| Michael E. Gellert | 141,590,086 | 1,123,185 |
| John R. Hall | 142,444,699 | 268,572 |
| David A. Jones | 142,131,791 | 581,480 |
| David A. Jones, Jr. | 142,116,339 | 596,932 |
| Irwin Lerner | 142,435,054 | 278,217 |
| W. Ann Reynolds, Ph.D. | 142,121,416 | 591,855 |
| Wayne T. Smith | 142,130,098 | 583,173 |

Item 5:

None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 12 - Statement re: Computation of Ratio of Earnings to Fixed Charges

Exhibit 27 - Financial Data Schedule

(b) No reports on Form 8-K have been filed during the quarter ended March 31, 1995.



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.

Date: May 12, 1995 /s/ James E. Murray

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

Date: May 12, 1995 /s/ Arthur P. Hipwell

Arthur P. Hipwell
Senior Vice President and
General Counsel

Exhibit 12

HUMANA INC.
RATIO OF EARNINGS TO FIXED CHARGES
For the quarters ended March 31, 1995 and 1994
Unaudited
(Dollars in millions)

| | 1995 | 1994 |
|---|---|---|
| Earnings: | | |
| Income before income taxes | $ 80 | $ 51 |
| Fixed charges | 3 | 2 |
| | $ 83 | $ 53 |
| Fixed charges: | | |
| Interest charged to expense | $ 2 | $ 1 |
| One-third of rent expense | 1 | 1 |
| | $ 3 | $ 2 |
| Ratio of earnings to fixed charges | 25.5 | 20.8 |

For the purpose of determining earnings in the calculation of the ratio of earnings to fixed charges, earnings have been increased by the provision for income taxes and fixed charges. Fixed charges consist of interest expense on borrowings and one-third (the proportion deemed representative of the interest portion) of rent expense.

<ARTICLE> 5
<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM HUMANA INC.'S FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 1995, AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL
STATEMENT

<MULTIPLIER> 1,000,000

| | |
|---|---|
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