

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

FORM 10-K

(MARK ONE)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)  
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-5975

HUMANA INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OF INCORPORATION)  
  
500 WEST MAIN STREET  
LOUISVILLE, KENTUCKY  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

61-0647538  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)  
  
40202  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 502-580-1000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
COMMON STOCK, \$.16 2/3 PAR VALUE	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the Registrant's definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

The aggregate market value of voting stock held by non-affiliates of the

Registrant as of March 1, 1995, was \$3,623,515,292 calculated using the average price on such date of \$23.875. The number of shares outstanding of the Registrant's Common Stock as of March 1, 1995, was 161,680,695.

DOCUMENTS INCORPORATED BY REFERENCE

Part II and portions of Part IV incorporate herein by reference the Registrant's 1994 Annual Report to Stockholders; Part III incorporates herein by reference portions of the Registrant's Proxy Statement filed pursuant to Regulation 14A covering the Annual Meeting of Stockholders scheduled to be held May 11, 1995.

The Exhibit Index begins on page 13.

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2

PART I

ITEM 1. BUSINESS

GENERAL

Humana Inc. is a Delaware corporation organized in 1961. Its principal executive offices are located at 500 West Main Street, Louisville, Kentucky 40202 and its telephone number at that address is (502) 580-1000. As used herein, the terms "the Company" or "Humana" include Humana Inc. and its subsidiaries.

On March 1, 1993, Humana separated its managed care health plan and acute-care hospital businesses into two independent publicly-held companies (the "Spinoff"). The Spinoff was effected through the distribution to Humana stockholders of all the outstanding shares of common stock of a new hospital company, Galen Health Care, Inc. ("Galen") (now a part of Columbia/HCA Healthcare Corporation). The Company retained and continues to operate the managed care health plan business.

Since 1983, the Company has offered 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 cost-effective medical services. These products are marketed primarily through health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs") that encourage, and in most HMO products require, use of contracting providers. HMOs and PPOs also control health care costs by various means, including 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") and Medicaid and Medicare-eligible individuals. The Company's Commercial products are marketed in 14 states and the District of Columbia. At December 31, 1994, the Company had a total of 20,700 Commercial customers with an average group size of 35 per customer. Commercial membership at December 31, 1994, includes 27,500 Medicaid-eligible individuals. The products marketed to Medicare-eligible individuals are either HMO products that provide health care services which include all Medicare benefits, and in certain circumstances, additional health care services that are not included in Medicare benefits ("Medicare risk") or indemnity insurance policies that supplement Medicare benefits ("Medicare supplement"). At December 31, 1994, the Company had 287,400 Medicare risk members and 131,700 Medicare supplement members.

COMMERCIAL PRODUCTS

HMOs

An HMO provides prepaid health care services to its members through primary care and specialty physicians employed by the HMO at facilities owned by the HMO, and/or through a network of independent primary care and specialty

physicians and other health care providers who contract with the HMO to furnish such services. Primary care physicians include internists, family practitioners and pediatricians. Generally, access to specialty physicians and other health care providers must be approved by the member's primary care physician. These other health care providers include, among others, hospitals, nursing homes, home health agencies, pharmacies, mental health and substance abuse centers, diagnostic centers, optometrists, outpatient surgery centers, dentists, urgent care centers, and durable medical equipment suppliers. Because access to these other health care providers must be approved by the primary care physician, the HMO product is the most restrictive form of managed care.

At December 31, 1994, the Company owned and operated 15 HMOs, which contract with approximately 28,700 physicians (including approximately 6,900 primary care physicians) and 460 hospitals. In addition, the Company has approximately 1,300 contracts with other providers to provide services to HMO members. The Company also employed 370 physicians in its HMOs at December 31, 1994.

An HMO member, typically through the member's employer, pays a monthly fee which generally covers, with minimal co-payments, health care services received from or approved by the member's primary care

1

3

physician. For the year ended December 31, 1994, Commercial HMO premium revenues totaled approximately \$1.7 billion or 47% of the Company's premium revenues. Approximately \$250 million of the Company's Commercial premium revenues for the year ended December 31, 1994, were derived from contracts with the United States Office of Personnel Management ("OPM") under which the Company provides health care benefits to approximately 174,500 federal civilian employees and their dependents. Pursuant to these contracts, payments made by OPM may be retrospectively adjusted downward by OPM if an audit discloses that a comparable product was offered by the Company to a similar size subscriber group using a rating formula which resulted in a lower premium rate than that offered to OPM. The Company has undergone audits in certain markets. Management believes that any retrospective adjustments as a result of OPM audits will not have a material impact on the Company's results of operations, financial position or cash flows.

PPOs

PPO products include many elements of managed health care. PPOs are also similar to traditional health insurance because they provide a member with the freedom to choose a physician or other health care provider. In a PPO, the member is encouraged, through financial incentives, to use participating health care providers which have contracted with the PPO to provide services at favorable rates. In the event a member chooses not to use a participating health care provider, the member may be required to pay a portion of the provider's fees.

At December 31, 1994, approximately 33,100 physicians and 520 hospitals contracted with the Company to provide services to PPO members. In addition, the Company has approximately 1,500 contracts with other providers to provide services to PPO members.

For the year ended December 31, 1994, premium revenues from Commercial PPOs totaled \$359 million or 10 percent of the Company's premium revenues.

Over the previous four years, the Company's Commercial premium rate increases have ranged between approximately 11 percent for the year ended December 31, 1992, to approximately 3 percent for the year ended December 31, 1994. Given the competitive environment, the Company expects 1995 Commercial premium rates will remain the same as in 1994.

MEDICAID PRODUCT

Medicaid is a state-operated program which utilizes both state and federal

funding to provide health care services to low-income residents. Each state which chooses to do so, develops through a state specific regulatory agency, a Medicaid managed care initiative which must be approved by the federal government's Health Care Financing Administration ("HCFA"). HCFA requires that Medicaid managed care plans meet federal standards and cost no more than the amount that would have been spent on a comparable fee-for-service basis. States currently use either a formal proposal process reviewing many bidders or award individual contracts to qualified bidders which apply for entry to the program. In either case, the contractual relationship with the state is generally for a one-year period. The Company believes that the risks associated with participation in a state Medicaid managed care initiative are similar to the risks associated with the Medicare risk product discussed below. In both instances, the Company receives a fixed monthly payment from a government agency for which it is required to provide managed health care services to a member. During the fourth quarter ended December 31, 1994, the Company received approval in two states (Florida and Illinois) to market a Medicaid product. In December 1994, the Company acquired CareNetwork, Inc. ("CareNetwork"), a federally qualified HMO located in Milwaukee and Southeastern Wisconsin which has 25,900 Medicaid members.

#### MEDICARE PRODUCTS

Medicare is a federal program that provides persons age 65 and over and some disabled persons certain hospital and medical insurance benefits, which include hospitalization benefits for up to 90 days per incident of illness plus a lifetime reserve aggregating 60 days. Each Medicare eligible individual is entitled to receive

2

4

inpatient hospital care (Part A) without the payment of any premium, but is required to pay a premium to the federal government, which is annually adjusted, to be eligible for physician and other services (Part B).

Even though participating in both Part A and Part B of Medicare, beneficiaries are still required to pay certain deductible and co-insurance amounts. They may, if they choose, supplement their Medicare coverage by purchasing policies which pay these deductibles and co-insurance amounts. Many of these policies also cover other services (such as prescription drugs) which are not included in Medicare coverage. These policies are known as Medicare supplement policies.

Certain managed care companies which operate HMOs contract with HCFA to provide medical benefits to Medicare-eligible individuals residing in the geographic areas in which their HMOs operate in exchange for a fixed monthly payment per member from HCFA. Individuals who elect to participate in these Medicare risk programs are relieved of the obligation to pay some or all of the deductible or co-insurance amounts but are required to use exclusively the services provided by the HMO. Other than the Part B premium paid by the member to the Medicare program, the enrollee does not pay the HMO a premium for these services except where the benefits provided by the HMO exceed the benefits provided by the Medicare Program.

#### Medicare Risk

A Medicare risk product involves a contract between an HMO and HCFA pursuant to which HCFA makes a fixed monthly payment to the HMO on behalf of each Medicare-eligible individual who chooses to enroll for coverage in the HMO. Membership may be terminated by the member upon 30 days' notice. The fixed monthly payment is determined and adjusted annually by HCFA, and takes into account, among other things, the cost of providing medical care in the geographic area where the member resides.

The Company markets a variety of Medicare risk HMO products. All of these products provide an enrolled individual with all of the benefits covered by the Medicare program but relieve the enrolled individual of the obligation to pay

deductibles and co-insurance that would otherwise apply. Some of these products also provide additional benefits not covered by Medicare, such as vision and dental care services and prescription drugs.

Where competitive conditions permit, the Company charges a premium to members (in addition to the payment from HCFA) for some of its Medicare risk products. At December 31, 1994, approximately 75,100 members in ten markets were paying premiums which totaled \$43 million for the year ended December 31, 1994.

The Company provides Medicare risk services under seven contracts with HCFA ("HCFA Contracts") in ten markets. At December 31, 1994, HCFA Contracts covered approximately 287,400 Medicare risk members for which the Company received HCFA revenues of approximately \$1.4 billion or 38 percent of the Company's premium revenues for the year ended December 31, 1994. At December 31, 1994, one such HCFA Contract covered approximately 215,400 members in Florida. For the year ended December 31, 1994, this Florida HCFA Contract accounted for \$1.1 billion, which represented 78 percent of the Company's HCFA revenues and 30 percent of the Company's total premium revenues. Each HCFA Contract is renewed each December 31 unless HCFA or the Company terminates it upon at least 90 days' notice prior thereto. Management believes termination of the HCFA Contract covering the members in Florida would have a material adverse effect on the Company's revenues, profitability and business prospects. Moreover, changes in the Medicare risk program as a result of legislative change, such as a reduction in payments by HCFA or mandated increases in benefits without corresponding increases in payments, could also have a material adverse effect on the Company's revenues, profitability and business prospects.

The Company's average rate of increase under the 1995 HCFA Contracts is expected to approximate 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.

#### Medicare Supplement

The Company's Medicare supplement product is an insurance policy which pays for hospital deductibles, co-payments and co-insurance for which the Medicare-eligible individual is responsible.

Under the terms of existing Medicare supplement policies, the Company may not reduce or cancel the benefits contracted for by policyholders. These policies are annually renewable by the insured at the Company's prevailing rates, which may increase subject to approval by appropriate state insurance regulators.

At December 31, 1994, the Company provided Medicare supplement benefits to approximately 131,700 members. Premium revenues derived from this product for the year ended December 31, 1994, totaled \$114 million.

#### PROVIDER ARRANGEMENTS

The Company's HMOs contract with individual or groups of primary care physicians, generally for an actuarially determined, fixed, per-member-per-month fee called a "capitation" payment. These contracts typically obligate primary care physicians to provide or arrange for the provision of all covered managed health care services to HMO members, including services provided by specialty physicians and other providers. The capitation payment does not vary with the nature or extent of services arranged for or provided to the member and is generally designed to shift a portion of the HMO's financial risk to the primary care physician. However, the degree to which the Company shifts its risk varies by provider. During the year ended December 31, 1994, approximately 8 percent of the Company's total medical costs were incurred under primary care capitation arrangements. The Company also employs 370 physicians in markets where it operates staff model HMOs. The Company is directly responsible for all services provided by these employed physicians. During the year ended December 31, 1994,

approximately 9 percent of the Company's total medical costs represented salary and similar costs incurred in its staff model HMOs. In order to control costs, improve quality and create comprehensive networks, the Company also contracts with medical specialists and other providers to which a primary care physician may refer a member. During the year ended December 31, 1994, approximately 12 percent of the Company's total medical costs were incurred under specialty and other non-primary care capitation arrangements. Typically, payments by the Company to these specialists and other providers reduce the ultimate payment that otherwise would be made to a primary care physician. The Company remains financially responsible for the provision of or payment for such services if a primary care or specialty physician fails to perform his or her obligations under the contract.

The focal point for cost control in the Company's HMOs is the primary care physician, whether employed or under contract, who provides services and controls utilization of services by directing or approving hospitalization and referrals to specialists and other providers. Cost control is further achieved by directly negotiating provider discounts. Cost control in the Company's PPOs is achieved primarily by establishing a cost-effective network of participating health care providers and providing incentives for members to use such providers. With respect to both HMO and PPO products, cost control is further achieved through the use of a utilization review system designed to reduce unnecessary hospital admissions, lengths of stay and unnecessary or inappropriate medical procedures.

The Company's HMOs and PPOs generally contract for hospital services under a per diem arrangement for inpatient hospital services and a discounted fee-for-service arrangement for outpatient services. Effective March 1, 1995, the Company began the third year of a three-year operating agreement with Galen, whereby the Company uses the services of Galen's hospitals guaranteeing certain minimum utilization levels. Rate increases charged for such services are defined under the terms of the agreement. Commercial product rate increases are limited to the lesser of the increase in the hospital Consumer Price Index or the Company's Commercial product premium rate increases, less one percent. Medicare risk product rate increases approximate the percentage adjustment in HCFA's market specific hospital payment rate to the Company. Management believes that the contract rates under the operating agreement are competitive. During the year ended December 31, 1994, 13 percent of the Company's total medical costs were incurred in Galen's hospitals while 25 percent were incurred in other hospitals. Management believes the renegotiation or expiration of the

operating agreement will not have a material adverse affect on the Company's results of operations, financial position or cash flows.

#### QUALITY ASSESSMENT

Physician participation in the Company's HMOs and PPOs is conditioned upon meeting its HMO and PPO requirements concerning the physician's professional qualifications. When considering whether to contract with a physician, the Company performs certain credentialing procedures including reviewing licensure, status of certification by the governing specialty boards and malpractice claims history.

In addition to ensuring the professional qualifications of its physician and other providers, the Company regularly monitors various critical indicators including network access, and quality and service performance measurements. The Company has also contracted with a third-party vendor to provide software which aggregates treatment protocols into patterns of care for analyzing the appropriateness of care and frequency of services provided by the Company and similar companies. In June 1994, the Company began reporting Health Plan Employer Data Information Sets (HEDIS). HEDIS will be useful to purchasers of managed health care services to measure individual health plan quality and service. Finally, the Company is developing practice guidelines for frequent membership diagnosis in order to reduce the variation in disease management and

improve the health outcomes of its membership.

#### HEALTH MAINTENANCE ORGANIZATION ACCREDITATION

With the increasing significance of managed care in the health care industry, several independent organizations have been formed with the purpose of responding to external demands for accountability over the managed care industry. One such organization utilized by the Company is the National Committee for Quality Assurance ("NCQA"). NCQA performs site reviews of standards established for quality assurance, credentialing, utilization management and medical records, preventive services and member rights and evaluates the mechanisms that the organization has established to ensure continuous quality improvement.

In the states of Kansas and Florida, where the Company operates seven markets, accreditation is mandatory and is generally required for licensure. At December 31, 1994, four of the Company's markets have received various levels of provisional or one year accreditation and three, South Florida, Jacksonville, Florida, and Milwaukee, Wisconsin (prior to purchase in December 1994), were denied accreditation. As a result of the accreditation denials in South Florida and Jacksonville, the Company and the State of Florida have mutually developed a corrective action process, approved by NCQA, which is intended to address the issues identified by NCQA which primarily relate to quality data accumulation. Management believes the Company has substantially corrected all the deficiencies identified in the review. The Company believes these denials will not have a material adverse impact on its results of operations, financial position or cash flows.

#### MANAGEMENT INFORMATION SYSTEMS

The Company's managed care health plans use integrated information systems developed and/or customized specifically to meet the Company's needs and to allow for aggregation of data and comparison across markets. These information systems support marketing, sales, underwriting, contract administration, billing, financial and other administrative functions as well as customer service, appointment scheduling, authorization and referral management, concurrent review, physician capitation and claims administration, provider management, quality management and utilization review.

Key to the Company's information systems is the decision support database, used by market office and corporate personnel for such items as provider profiling, quality assessment, member satisfaction measurement, employer reporting, and utilization review among many others.

The Company's information systems are continually being upgraded to support new products in an integrated manner as well as to take advantage of the latest advances in technology. For example, the Company is currently implementing: laptop computers for processing information from concurrent reviews at the bedside, interactive voice response for customer service inquiries, claims imaging to improve productivity,

and extensive electronic data interchange between customers, providers and employees. Future information system initiatives include provider practice guidelines and outcomes measurement.

#### MARKETING

Individuals become members of the Company's Commercial HMOs and PPOs through their employer or other groups which typically offer employees or members a selection of managed health care products, pay for all or part of the premiums and make payroll deductions for any premiums payable by the employees. The Company attempts to become an employer's or group's exclusive source of managed health care benefits by offering HMO and PPO products that provide cost-effective quality care consistent with the needs and expectations of the

employees or members. At December 31, 1994, the Company was an exclusive carrier for 43 percent of its Commercial customers.

The Company uses various methods to market its Commercial and Medicare products, including television, radio, telemarketing and mailings. At December 31, 1994, the Company used approximately 2,570 independent licensed brokers and agents and 170 licensed employees to sell its Commercial products. Many of the Company's employer group customers are represented by insurance brokers and consultants who assist these groups in the design and purchase of health care products. The Company generally pays brokers a commission based on premiums, with commissions varying by market and premium volume.

In addition to the above, at December 31, 1994, approximately 300 independent licensed brokers and 370 employed sales representatives, who are each paid a salary and/or per member commission, marketed the Company's Medicaid and Medicare products. The Company also uses 290 telemarketing representatives who assist in the marketing of Medicaid and Medicare products by making appointments for broker/sales representatives with prospective members.

The following table lists the Company's membership at December 31, 1994, by state and product:

	MEMBERS				TOTAL
	COMMERCIAL		MEDICARE RISK	MEDICARE SUPPLEMENT	
	PPO	HMO (1)			
Florida	107,700	301,500	215,400	16,500	641,100
Illinois	30,800	272,400	28,900	100	332,200
Kentucky	14,000	261,300	2,700	37,200	315,200
Texas	54,600	84,300	17,400	20,300	176,600
Missouri/Kansas	12,600	92,800	8,100	6,600	120,100
District of Columbia		109,900			109,900
Other	17,900	168,500	14,900	51,000	252,300
Subtotal	237,600	1,290,700	287,400	131,700	1,947,400
Administrative services					93,500
TOTAL MEMBERSHIP	237,600	1,290,700	287,400	131,700	2,040,900

(1) Includes 27,500 Medicaid members at December 31, 1994, located in Wisconsin, Florida and Illinois.

The Company's 25 largest group contracts at December 31, 1994, accounted for approximately 33 percent of total Commercial membership. No one group contract accounted for as much as 5 percent of the Company's Commercial product premium revenues; however, certain employer groups accounted for a significant percentage of Commercial insurance premiums in some markets. The loss of one or more of these contracts in a particular market could have a material adverse effect on the Company's operations in that market.

#### RISK MANAGEMENT

Through the use of internally developed underwriting criteria, the Company determines the risk it is willing to assume and the amount of premium to charge for its Commercial products. Employer and other groups must meet the Company's underwriting standards in order to qualify to contract with the Company for coverage. Underwriting techniques are not employed in connection with Medicare risk HMO products because of HCFA regulations that require the Company to accept all eligible Medicare applicants regardless of their health or prior medical



history. The Company also is not permitted to employ underwriting criteria for the Medicaid product but rather follows HCFA and state requirements.

#### COMPETITION

The managed health care industry is highly competitive and contracts for the sale of Commercial products are generally bid or renewed annually. The Company's competitors vary by local market and include Blue Cross/Blue Shield (including HMOs and PPOs owned by Blue Cross/Blue Shield plans), national insurance companies and other HMOs and PPOs. Many of the Company's competitors have larger membership in local markets or greater financial resources. The Company's ability to sell its products and to retain customers is or may be influenced by such factors as benefits, pricing, contract terms, number and quality of participating physicians and other managed health care providers, utilization review, claims processing, administrative efficiency and accreditation results.

#### GOVERNMENT REGULATION

Of the Company's fifteen licensed HMO subsidiaries, nine are qualified under the Federal Health Maintenance Organization Act of 1973, as amended. Four of these federally qualified subsidiaries are parties to HCFA Contracts to provide Medicare risk HMO products.

An HMO which is federally qualified may require employers, with more than 25 employees, that offer health insurance benefits to include federally qualified HMO products as an option available to their employees. To obtain federal qualification, an HMO must meet certain requirements, including conformance with financial criteria, a standard method of rate setting, a comprehensive benefit package, and prohibition of medical underwriting of individuals. In certain markets, and for certain products, the Company operates HMOs that are not federally qualified because this provides greater flexibility with respect to product design and pricing than is possible for federally qualified HMOs.

HCFA audits Medicare risk HMOs at least biannually and may perform other reviews more frequently to determine compliance with federal regulations and contractual obligations. These audits include review of the HMO's administration and management (including management information and data collection systems), fiscal stability, utilization management and incentive arrangements, health services delivery, quality assurance, marketing, enrollment and disenrollment activity, claims processing and complaint systems. HCFA regulations require quarterly and annual submission of financial statements and restrict the number of Medicare risk members to no more than the HMO's Commercial membership in a specified service area. HCFA regulations also require independent review of medical records and quality of care, review and approval by HCFA of all advertising, marketing and communication materials, and independent review of all denied claims and service complaints which are not resolved in favor of a member.

During 1994, HCFA performed an investigation of the Company's South Florida health plan. HCFA's findings, which focused primarily on the collection and use of data, indicated the plan was not fully meeting HCFA requirements in the areas of utilization management, quality assurance and availability/accessibility. The Company and HCFA have agreed upon an implementation plan for a mutually developed corrective action process. The Company believes this investigation will not have a material adverse impact on the results of operations, financial position or cash flows of the Company.

The Company's Medicaid product is regulated by the applicable state agency in the state which the Company sells its Medicaid product and is subject to periodic reviews by these agencies. The reviews are similar in nature to those performed by HCFA.

Laws in each of the states in which the Company operates its HMOs and PPOs regulate its operations, including the scope of benefits, rate formula, delivery systems, utilization review procedures, quality assurance, enrollment requirements, claim payments, marketing and advertising. The PPO products offered by the Company are generally sold under insurance licenses issued by the applicable state insurance regulators. The Company's HMOs and PPOs are required to be in compliance with certain minimum capital requirements. These requirements must be satisfied by investing in approved investments that generally cannot be used for other purposes. Under state laws, the Company's HMOs and PPOs are audited by state departments of insurance for financial and contractual compliance, and its HMOs are audited for compliance with health services standards by respective state departments of health.

Management believes that the Company is in substantial compliance with all governmental laws and regulations affecting its business.

#### HEALTH CARE REFORM

There has been diverse legislative and regulatory initiatives at both the federal and state levels to address aspects of the nation's health care system.

##### National

During 1994, Congress debated health care legislation which included proposals covering cost controls, universal coverage and the creation of statewide health alliances that would cover individuals not enrolled in large employer managed care health plans. No material substantive legislation was passed in 1994, nor has any been proposed to date in 1995.

##### State

Legislation enacted in the states has included, among other things, universal access, employer purchasing pools and statewide purchasing alliances. Other managed care issues being discussed include any willing provider, guaranteed renewal, portability, rating restrictions, and freedom of choice requirements.

The State of Florida has adopted health care reform legislation which, among other things, establishes a mechanism through which small employers and self-employed individuals may acquire health care coverage through state chartered non-profit entities known as Community Health Purchasing Alliances (CHPAs). It is intended the CHPAs will also be used to acquire insurance for state employees and Medicaid beneficiaries in the future. The legislation divides the state into 11 geographic areas and establishes a separate CHPA for each area. The Company is offering products in each of these geographic areas.

The Commonwealth of Kentucky has passed legislation which, among other things, requires standardization of health care policies by July 15, 1995 and establishes a health care policy board to recommend health insurance reform measures to the Kentucky legislature. At this time, neither the standardization of health insurance policies nor any health reform proposals have been finalized and the Company cannot predict what effect, if any, such legislation will have on its operations in Kentucky.

The Company is unable to predict how existing federal or state laws and regulations may be changed or interpreted, what additional laws or regulations affecting its businesses may be enacted or proposed, when and which of the proposed laws will be adopted, or what effect any such new laws and regulations will have on its revenues, profitability and business prospects.

#### OTHER BUSINESSES

##### Hospital

The Company owns a 170-bed hospital in Lexington, Kentucky, which provides care primarily to members of the Company's managed care plans in Lexington. The Company has contracted with an independent hospital management company (the "Management Company"), whereby effective March 1, 1995, all operational

functions of the hospital are managed by the Management Company.

10

### Captive Insurance Company

The Company insures substantially all of its professional liability risks through a wholly-owned subsidiary (the "Captive Subsidiary") which was incorporated in the State of Vermont. The annual premiums paid to the Captive Subsidiary are determined by independent actuaries. The Captive Subsidiary reinsures levels of coverage for losses in excess of its retained limits with various unrelated insurance carriers.

### Centralized Management Services

Centralized management services are provided to each health plan from the Company's headquarters. These services include management information systems, product administration, financing, personnel, development, accounting, legal advice, public relations, marketing, insurance, purchasing, risk management, actuarial, underwriting and claims processing.

### EMPLOYEES

As of December 31, 1994, the Company and its subsidiaries had approximately 12,000 employees. Approximately 1,400 employees of the Company are covered by collective bargaining agreements. The Company has not experienced any work stoppages and believes it has good relations with its employees.

### ITEM 2. PROPERTIES

The Company owns its principal executive office, which is located in the Humana Building, 500 West Main Street, Louisville, Kentucky 40202.

The Company provides medical services in medical centers owned or leased ranging in size from approximately 1,200 to 80,000 square feet. The Company's administrative market offices are generally leased, with square footage ranging from 500 to 75,000. The following chart lists the location of properties used in the operation of the Company at December 31, 1994:

STATES AND DISTRICTS	MEDICAL CENTERS		ADMINISTRATIVE OFFICES		TOTAL
	OWNED	LEASED	OWNED	LEASED	
Florida	7	53		25	85
Illinois	7	20		4	31
Kentucky	8	3		4	15
Texas	5	1		4	10
Missouri/Kansas	3	11		3	17
District of Columbia		4		2	6
Other	4	5	1	14	24
TOTAL	34	97	1	56	188

In addition, the Company owns buildings in Louisville, Kentucky, and San Antonio, Texas, and leases a facility in Jacksonville, Florida, all of which are used for customer service and claims processing. The Louisville facility also performs enrollment processing and other corporate functions.

The Company also owns a hospital and medical office building in Lexington,

Kentucky.

ITEM 3. LEGAL PROCEEDINGS

1. A class action law suit styled Mary Forsyth, et al v. Humana Inc., et al, Case #CV-5-89-249-PMP (L.R.L.), (now restyled Marietta Cade, et al v. Humana Health Insurance of Nevada, Inc., et al) was filed on March 29, 1989, in the United States District Court for the District of Nevada (the "Forsyth" case). There have been no material changes since those described in the Company's Form 10-Q for the quarterly period ended June 30, 1994.

9

11

2. On April 22, 1993, an alleged stockholder of the Company filed a purported shareholder derivative action in the Court of Chancery of the State of Delaware, County of New Castle, styled Lewis v. Austen, et al, Civil Action No. 12937. There have been no changes since those described in the Company's Form 10-K for the fiscal year ended December 31, 1993.

Damages for claims for personal injuries and medical benefit denials are usual in the Company's business. Personal injury claims are covered by insurance from the Captive Subsidiary and excess carriers, except to the extent that claimants seek punitive damages, which may not be covered by insurance if awarded. Punitive damages generally are not paid where claims are settled and generally are awarded only where there has been a willful act or omission to act.

The Company does not believe that any pending actions will have a material adverse effect on its consolidated results of operations, financial position or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

10

12

EXECUTIVE OFFICERS OF THE COMPANY

Set forth below are names and ages of all of the current executive officers of the Company as of March 1, 1995, their positions, date of election to such position and the date first elected an officer of the Company:

NAME	AGE	POSITION	SERVED IN SUCH CAPACITY SINCE	FIRST ELECTED OFFICER
David A. Jones	63	Chairman of the Board and Chief Executive Officer	08/69	09/64 (1)
Wayne T. Smith	49	President and Chief Operating Officer and Director	03/93	06/78
W. Larry Cash	46	Senior Vice President -- Finance and Operations	09/88	08/82
Karen A. Coughlin	47	Senior Vice President -- Region II	02/93	09/88
W. Roger Drury	48	Chief Financial Officer	05/92	08/83
Philip B. Garmon	51	Senior Vice President -- Region I	09/88	11/82
Arthur P. Hipwell	46	Senior Vice President and General	06/94	08/90 (2)

Counsel

Ronald S. Lankford, M.D.	43	Senior Vice President -- Medical Affairs	03/93	08/87
James E. Murray	41	Vice President and Controller	03/93	08/90

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(1) Elected an officer of a predecessor corporation in 1961.

(2) Mr. Hipwell was initially elected an officer of the Company in 1990 and previously served in this same capacity since July 1992. Effective with the Spinoff, he became Senior Vice President and General Counsel of Galen. Mr. Hipwell returned to the Company in January 1994 and was named Senior Vice President and General Counsel of the Company on June 15, 1994.

Executive officers are elected annually by the Company's Board of Directors and serve until their successors are elected or until resignation or removal. There are no family relationships among any of the directors or executive officers of the Company, except that Mr. Jones is the father of David A. Jones, Jr., a director of the Company. Except for Mr. Hipwell, all of the above-named executive officers have been employees of the Company for more than five consecutive years.

11

13

PART II

Information for Items 5 through 8 of this Report, which appears in the 1994 Annual Report to Stockholders as indicated on the following table, is incorporated by reference in this report and filed as an exhibit hereto:

	ANNUAL REPORT TO STOCKHOLDERS PAGE -----
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	36
ITEM 6. SELECTED FINANCIAL DATA	18
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	19-22
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA: Consolidated financial statements Quarterly financial information	23-32 33
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item other than the information set forth in Part I under the Section entitled "EXECUTIVE OFFICERS OF THE COMPANY," is herein incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on May 11, 1995, appearing under the caption "ELECTION OF DIRECTORS OF THE COMPANY FOR 1995" of such Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is herein incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1995, appearing under the caption "EXECUTIVE COMPENSATION OF THE COMPANY" of such Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is herein incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1995, appearing under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS OF COMPANY COMMON STOCK" of such Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is herein incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1995 appearing under the caption "CERTAIN TRANSACTIONS WITH MANAGEMENT AND OTHERS" of such Proxy Statement.

12

14

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) The financial statements, financial statement schedules and exhibits set forth below are filed as part of this report.
- (1) Financial Statements -- The response to this portion of Item 14 is submitted as a separate section of this report.
  - (2) Index to Consolidated Financial Statement Schedules:  
Consolidated Schedules as of and for the years ended December 31, 1994, 1993 and 1992:  
I Parent Company Financial Information  
II Valuation and Qualifying Accounts  
All other schedules have been omitted because they are not applicable.
  - (3) Exhibits:
    - 3 (a) Restated Certificate of Incorporation filed with the Secretary of State of Delaware on November 9, 1989, as restated pursuant to Item 102(c) of regulation S-T to incorporate the amendment of January 9, 1992, and the correction of March 23, 1992. Exhibit 4(i) to the Company's Post-Effective Amendment to the Registration Statement on Form S-8 (Reg. No. 33-49305) filed February 2, 1994, is incorporated by reference herein.
    - (b) By-laws, as amended. Exhibit 3(a) to the Company's Current Report on Form 8-K (File No. 1-5975) filed March 5, 1993, is incorporated by reference herein.
    - 4 (a) Restated Certificate of Incorporation as amended and corrected and By-laws as amended. (See 3(a) and (b) above.)
    - (b) Form of Rights Agreement dated March 5, 1987, between Humana Inc. and Mid-America Bank of Louisville and Trust Company (the "Rights Agreement"). Exhibit 1 to the Form SE for the Registration Statement (File No. 1-5975) on Form 8-A dated March 9, 1987, is incorporated by reference herein.
    - (c) Amendment No. 1, dated December 7, 1992, to the Rights Agreement. Exhibit

- 1.1 to the Company's Form 8 (File No. 1-5975) filed December 16, 1992, is incorporated by reference herein.
- (d) Amendment No. 2, dated March 2, 1993, to the Rights Agreement. Exhibit 1.2 to the Company's Form 8 (File No. 1-5975) filed March 2, 1993, is incorporated by reference herein.
- (e) There are no instruments defining the rights of holders with respect to long-term debt in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis. Other long-term indebtedness of the Company is described in Note 7 of Notes to Consolidated Financial Statements in the Company's 1994 Annual Report to Stockholders. The Company agrees to furnish copies of all such instruments defining the rights of the holders of such indebtedness to the Commission upon request.
- 10 (a) \* 1981 Non-Qualified Stock Option Plan, as amended. Exhibit 10(c) to Form SE filed on November 25, 1987, is incorporated by reference herein.

-----

\* Exhibits 10(a) through and including 10(t) and 10(mm) are compensatory plans or management contracts.

13

15

- 10 (b) \* Amendment No. 2 to the 1981 Non-Qualified Stock Option Plan, as amended. Annex A to the Company's Proxy Statement covering the Annual Meeting of Stockholders on February 18, 1993, is incorporated by reference herein.
- (c) \* 1989 Stock Option Plan for Employees. Exhibit A to the Proxy Statement covering the Annual Meeting of Stockholders on January 11, 1990, is incorporated by reference herein.
- (d) \* Amendment No. 1 to the 1989 Stock Option Plan for Employees. Annex B to the Company's Proxy Statement covering the Annual Meeting of Stockholders on February 18, 1993, is incorporated by reference herein.
- (e) \* Amendment No. 2 to the 1989 Stock Option Plan for Employees. Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (f) \* 1989 Stock Option Plan for Non-Employee Directors. Exhibit B to the Proxy Statement covering the Annual Meeting of Stockholders on January 11, 1990, is incorporated by reference herein.
- (g) \* Amendment No. 1 to the 1989 Stock Option Plan for Non-Employee Directors. Annex C to the Company's Proxy Statement covering the Annual Meeting of Stockholders on February 18, 1993, is incorporated by reference herein.
- (h) \* Amendment No. 2 to the 1989 Stock Option Plan for Non-Employee Directors. Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (i) \* Executive Management Incentive Compensation Plan -- Group A, Corporate. Exhibit C to the Proxy Statement covering the Annual Meeting of Stockholders held on May 26, 1994, is incorporated by reference herein.
- (j) \* Executive Management Incentive Compensation Plan -- Group I, Corporate. Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (k) \* Regional Incentive Compensation Plan -- Group I, Regional Senior Vice President. Exhibit 10(k) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (l) \* Senior Management Incentive Compensation Plan -- Group II, Corporate. Exhibit 10(l) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (m) \* Restated agreement providing for termination benefits in the event of a change of control, filed herewith.
- (n) \* Employment Agreement -- Wayne T. Smith, filed herewith.
- (o) \* Employment Agreement -- David A. Jones, as amended. Exhibit 10(m) to the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 1991, (File No. 1-5975) is incorporated by reference herein.
- (p) \* Directors' Retirement Policy as amended. Exhibit 10(m) to the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 1992, (File No. 1-5975) is incorporated by reference herein.
- (q) \* Humana Officers' Target Retirement Plan as amended, filed herewith.

-----

\* Exhibits 10(a) through and including 10(t) and 10(mm) are compensatory plans

or management contracts.

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- 10 (r)\* Form Letter Agreement concerning Humana Officers' Target Retirement Plan dated June 18, 1992, for Mr. Jones. Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (s)\* Humana Thrift Excess Plan as amended, filed herewith.
- (t)\* Humana Supplemental Executive Retirement Plan as amended, filed herewith.
- (u) Indemnity Agreement. Appendix B to the Proxy Statement covering the Annual Meeting of Stockholders held on January 8, 1987, is incorporated by reference herein.
- (v) Agreement between The Secretary of the Department of Health and Human Services and Humana Medical Plan, Inc. Exhibit 10(w) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (w) Humana Inc. \$200 million Credit Agreement dated January 12, 1994. Exhibit 10(x) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (x) Humana Inc. Agreement and Amended Credit Agreement dated October 27, 1994, filed herewith.
- (y) Operating Agreement between the Company and Galen Health Care, Inc. ("Galen"), now a subsidiary of Columbia/HCA Healthcare Corporation. Exhibit 10(d) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (z) Form of Hospital Services Agreement between the Company and Galen. Exhibit 10(e) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (aa) Medicare Supplement Agreement between the Company and Galen. Exhibit 10(f) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (bb) Assumption of Liabilities and Indemnification Agreement between the Company and Galen. Exhibit 10(g) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (cc) Employee Benefits Allocation Agreement between the Company and Galen. Exhibit 10(h) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (dd) Tax Sharing and Indemnification Agreement between the Company and Galen. Exhibit 10(i) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (ee) Loss Portfolio Reinsurance Agreement between Health Care Indemnity, Inc. and Managed Care Indemnity, Inc. Exhibit 10(j) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (ff) Intellectual Property Agreement between the Company and Galen. Exhibit 10(p) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (gg) Information Systems Split Agreement between the Company and Galen. Exhibit 10(s) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.

-----  
\* Exhibits 10(a) through and including 10(t) and 10(mm) are compensatory plans or management contracts.

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17

- 10 (hh) Intercompany Information Systems Agreement between the Company and Galen. Exhibit 10(t) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (ii) Intercompany Communications Agreement between the Company and Galen. Exhibit 10(u) to the Company's Current Report on Form 8-K filed on March 5,



- 1993, is incorporated by reference herein.
- (jj) Alternative Dispute Resolution Agreement between the Company and Galen dated March 8, 1993. Exhibit 10(qq) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
  - (kk) Workers' Compensation Administrative Services Agreement between Humana Health Insurance Company of Florida, Inc., a wholly-owned subsidiary of the Company, and Galen. Exhibit 10(w) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
  - (ll) Administrative Services Agreement between Humana Insurance Company, a wholly-owned subsidiary of the Company, and Galen. Exhibit 10(x) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
  - (mm)\* Letter agreement with Company officers concerning health insurance availability, filed herewith.
  - 12 Statement re Computation of Ratio of Earnings to Fixed Charges, filed herewith.
  - 13 1994 Annual Report to Stockholders, filed herewith. The Annual Report shall not be deemed to be filed with the Commission except to the extent that information is specifically incorporated by reference herein.
  - 21 Subsidiary list filed herewith.
  - 23 Consent of Coopers & Lybrand L.L.P., filed herewith.
  - 27 Financial Data Schedule, filed herewith.

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 \* Exhibits 10(a) through and including 10(t) and 10(mm) are compensatory plans or management contracts.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed by the Company during the last quarter of the period covered by this report.

16

18

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

HUMANA INC.

By: /s/ W. ROGER DRURY

-----  
 W. Roger Drury  
 Chief Financial Officer

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
----- /s/ JAMES E. MURRAY ----- James E. Murray	Vice President and Controller (Principal Accounting Officer)	March 30, 1995
----- /s/ DAVID A. JONES ----- David A. Jones	Chairman of the Board and Chief Executive Officer	March 30, 1995
----- /s/ WAYNE T. SMITH ----- Wayne T. Smith	President and Chief Operating Officer and Director	March 30, 1995

/s/ K. FRANK AUSTEN, M.D.	Director	March 30, 1995
-----		
K. Frank Austen, M.D.		
/s/ MICHAEL E. GELLERT	Director	March 30, 1995
-----		
Michael E. Gellert		
/s/ JOHN R. HALL	Director	March 30, 1995
-----		
John R. Hall		
/s/ DAVID A. JONES, JR.	Director	March 30, 1995
-----		
David A. Jones, Jr.		
/s/ IRWIN LERNER	Director	March 30, 1995
-----		
Irwin Lerner		
/s/ W. ANN REYNOLDS, Ph.D.	Director	March 30, 1995
-----		
W. Ann Reynolds, Ph.D.		

17

19

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Humana Inc.

Our report on the consolidated financial statements of Humana Inc. dated February 13, 1995, which includes an explanatory paragraph relating to a change in 1993 in the method of accounting for certain investments in debt and equity securities, has been incorporated by reference in this Form 10-K from page 33 of the 1994 Annual Report to Shareholders of Humana Inc. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index in Item 14(a)(2) of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Louisville, Kentucky  
February 13, 1995

18

20

HUMANA INC.  
SCHEDULE I -- PARENT COMPANY FINANCIAL INFORMATION (A)  
CONDENSED BALANCE SHEET  
DECEMBER 31, 1994 AND 1993  
(DOLLARS IN MILLIONS)

ASSETS	DECEMBER 31,	
	1994	1993
	-----	-----
Cash and cash equivalents		\$ 27
Marketable securities		103
Other current assets	\$ 142	168
	-----	-----
Total current assets	142	298
Property and equipment, net	139	125

Investments in subsidiaries	725	509
Long-term marketable securities	235	110
Other	33	35
	-----	-----
TOTAL ASSETS	\$1,274	\$1,077
	=====	=====
	LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	
Current liabilities	\$ 199	\$ 164
Other	17	24
	-----	-----
Total liabilities	216	188
	-----	-----
Contingencies (b)		
Common stock \$.16 2/3 par; authorized 300,000,000 shares; issued and outstanding 161,330,064 shares -- 1994, 160,343,788 shares -- 1993	27	27
Other stockholders' equity	1,031	862
	-----	-----
Total common stockholders' equity	1,058	889
	-----	-----
TOTAL LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	\$1,274	\$1,077
	=====	=====

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(a) Parent company financial information has been derived from the consolidated financial statements of the Company and excludes the accounts of all operating subsidiaries. This information should be read in conjunction with the consolidated financial statements of the Company.

(b) In the normal course of business, the parent company indemnifies certain of its subsidiaries for health plan obligations its subsidiaries may be unable to meet. In addition, the parent remains contingently liable for approximately \$55 million of Galen debt.

19

21

HUMANA INC.  
SCHEDULE I -- PARENT COMPANY FINANCIAL INFORMATION (A)  
CONDENSED STATEMENT OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992  
(DOLLARS IN MILLIONS)

	DECEMBER 31,		
	1994	1993	1992
	-----	-----	-----
Revenues:			
Management fees charged to operating subsidiaries	\$153	\$121	\$ 87
Interest income	19	14	
	-----	-----	-----
	172	135	87
	-----	-----	-----
Expenses:			
Selling, general and administrative	164	147	101
Depreciation and amortization	18	18	19
Restructuring and unusual charges			58
Interest expense (recovery)	(24)	16	11
	-----	-----	-----
	158	181	189
	-----	-----	-----
Income (loss) before income taxes and equity in income (loss) of subsidiaries	14	(46)	(102)
Income tax benefit		17	34
	-----	-----	-----
Income (loss) before equity in income (loss) of subsidiaries	14	(29)	(68)
Equity in income (loss) of subsidiaries	162	118	(39)
	-----	-----	-----
Net income (loss)	\$176	\$ 89	\$(107)
	=====	=====	=====

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(a) Parent company financial information has been derived from the consolidated

financial statements of the Company and excludes the accounts of all operating subsidiaries. This information should be read in conjunction with the consolidated financial statements of the Company.

20

22

HUMANA INC.  
SCHEDULE I -- PARENT COMPANY FINANCIAL INFORMATION (A)  
CONDENSED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992  
(DOLLARS IN MILLIONS)

	YEARS ENDED DECEMBER 31,		
	1994	1993	1992
Net cash provided by (used in) operating activities	\$ 81	\$ 20	\$ (79)
Cash flows from investing activities:			
Change in property and equipment	(10)	(1)	3
Change in marketable securities	(28)	(208)	6
Parent funding of operating subsidiaries	(170)	(160)	(19)
Dividends from operating subsidiaries	98	40	24
Other	(22)	(21)	(39)
Net cash used in investing activities	(132)	(350)	(25)
Cash flows from financing activities:			
Equity funding		383	72
Other	24	(26)	32
Net cash provided by financing activities	24	357	104
Increase (decrease) in cash and cash equivalents	(27)	27	
Cash and cash equivalents at beginning of period	27		
Cash and cash equivalents at end of period	\$	\$ 27	\$

-----  
(a) Parent company financial information has been derived from the consolidated financial statements of the Company and excludes the accounts of all operating subsidiaries. This information should be read in conjunction with the consolidated financial statements of the Company.

21

23

HUMANA INC.  
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992  
(DOLLARS IN MILLIONS)

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS OR WRITE-OFFS	BALANCE AT END OF PERIOD
Allowance for loss on premiums receivable:				
Year ended December 31, 1992	\$ 10	\$8	\$ (4)	\$ 14
Year ended December 31, 1993	14	4	(1)	17
Year ended December 31, 1994	17	5	(2)	20

22

## EXHIBIT INDEX

## Exhibits:

- 3 (a) Restated Certificate of Incorporation filed with the Secretary of State of Delaware on November 9, 1989, as restated pursuant to Item 102(c) of regulation S-T to incorporate the amendment of January 9, 1992, and the correction of March 23, 1992. Exhibit 4(i) to the Company's Post-Effective Amendment to the Registration Statement on Form S-8 (Reg. No. 33-49305) filed February 2, 1994, is incorporated by reference herein.
- (b) By-laws, as amended. Exhibit 3(a) to the Company's Current Report on Form 8-K (File No. 1-5975) filed March 5, 1993, is incorporated by reference herein.
- 4 (a) Restated Certificate of Incorporation as amended and corrected and By-laws as amended. (See 3(a) and (b) above.)
- (b) Form of Rights Agreement dated March 5, 1987, between Humana Inc. and Mid-America Bank of Louisville and Trust Company (the "Rights Agreement"). Exhibit 1 to the Form SE for the Registration Statement (File No. 1-5975) on Form 8-A dated March 9, 1987, is incorporated by reference herein.
- (c) Amendment No. 1, dated December 7, 1992, to the Rights Agreement. Exhibit 1.1 to the Company's Form 8 (File No. 1-5975) filed December 16, 1992, is incorporated by reference herein.
- (d) Amendment No. 2, dated March 2, 1993, to the Rights Agreement. Exhibit 1.2 to the Company's Form 8 (File No. 1-5975) filed March 2, 1993, is incorporated by reference herein.
- (e) There are no instruments defining the rights of holders with respect to long-term debt in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis. Other long-term indebtedness of the Company is described in Note 7 of Notes to Consolidated Financial Statements in the Company's 1994 Annual Report to Stockholders. The Company agrees to furnish copies of all such instruments defining the rights of the holders of such indebtedness to the Commission upon request.
- 10 (a) \* 1981 Non-Qualified Stock Option Plan, as amended. Exhibit 10(c) to Form SE filed on November 25, 1987, is incorporated by reference herein.
- (b) \* Amendment No. 2 to the 1981 Non-Qualified Stock Option Plan, as amended. Annex A to the Company's Proxy Statement covering the Annual Meeting of Stockholders on February 18, 1993, is incorporated by reference herein.
- (c) \* 1989 Stock Option Plan for Employees. Exhibit A to the Proxy Statement covering the Annual Meeting of Stockholders on January 11, 1990, is incorporated by reference herein.
- (d) \* Amendment No. 1 to the 1989 Stock Option Plan for Employees. Annex B to the Company's Proxy Statement covering the Annual Meeting of Stockholders on February 18, 1993, is incorporated by reference herein.
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- (j) \* Executive Management Incentive Compensation Plan -- Group I, Corporate. Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (k) \* Regional Incentive Compensation Plan -- Group I, Regional Senior Vice President. Exhibit 10(k) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
- (l) \* Senior Management Incentive Compensation Plan -- Group II, Corporate. Exhibit 10(l) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
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- (n) \* Employment Agreement -- Wayne T. Smith, filed herewith.

- (o) \* Employment Agreement -- David A. Jones, as amended. Exhibit 10(m) to the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 1991, (File No. 1-5975) is incorporated by reference herein.
- (p) \* Directors' Retirement Policy as amended. Exhibit 10(m) to the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 1992, (File No. 1-5975) is incorporated by reference herein.
- (q) \* Humana Officers' Target Retirement Plan as amended, filed herewith.

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- 10 (r) \* Form Letter Agreement concerning Humana Officers' Target Retirement Plan dated June 18, 1992, for Mr. Jones. Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
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- (t) \* Humana Supplemental Executive Retirement Plan as amended, filed herewith.
- (u) Indemnity Agreement. Appendix B to the Proxy Statement covering the Annual Meeting of Stockholders held on January 8, 1987, is incorporated by reference herein.
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- (w) Humana Inc. \$200 million Credit Agreement dated January 12, 1994. Exhibit 10(x) to the Company's Form 10-K for the year ended December 31, 1993, is incorporated by reference herein.
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- (z) Form of Hospital Services Agreement between the Company and Galen. Exhibit 10(e) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
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- (ff) Intellectual Property Agreement between the Company and Galen. Exhibit 10(p) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (gg) Information Systems Split Agreement between the Company and Galen. Exhibit 10(s) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
- (hh) Intercompany Information Systems Agreement between the Company and Galen. Exhibit 10(t) to the Company's Current Report on Form 8-K filed on March 5, 1993, is incorporated by reference herein.
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- (ll) Administrative Services Agreement between Humana Insurance Company, a wholly-owned subsidiary of the Company, and Galen. Exhibit 10(x) to the Company's Current Report on Form 8-K filed on March 5, 1993, is

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availability, filed herewith.  
12 Statement re Computation of Ratio of Earnings to Fixed Charges, filed  
herewith.  
13 1994 Annual Report to Stockholders, filed herewith. The Annual Report  
shall not be deemed to be filed with the Commission except to the extent  
that information is specifically incorporated by reference herein.  
21 Subsidiary list filed herewith.  
23 Consent of Coopers & Lybrand L.L.P., filed herewith.  
27 Financial Data Schedule, filed herewith.

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\* Exhibits 10(a) through and including 10(t) and 10(mm) are compensatory plans  
or management contracts.

## AMENDED AND RESTATED AGREEMENT

This AMENDED AND RESTATED AGREEMENT ("AGREEMENT") is made by and between HUMANA INC., Louisville, Kentucky (the "COMPANY") and \_\_\_\_\_ (the "EMPLOYEE").

WHEREAS, the Board of Directors (the "BOARD") of Humana Inc. desires to foster the continuous employment of the Employee and has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of the Employee to his/her duties free from distractions which could arise in the event of a threatened Change in Control of the Company; and

WHEREAS, the Company and Employee have previously entered into an agreement relating to Change in Control, and the Company and Employee desire to amend and restate such agreement,

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and the Employee agree as follows:

1. TERM OF AGREEMENT. This Agreement shall commence as of November 3, 1994 and shall continue in effect until December 31, 1995; provided, however, commencing on January 1, 1996 and on each January 1 thereafter, there shall automatically be an extension of one (1) year on the then-current term of this Agreement, unless either the Company or the Employee shall have given written notice to the other at least ninety (90) days prior thereto that the term of this Agreement shall not be so extended. Notwithstanding any such notice by the Company not to extend, the term of this Agreement shall not expire prior to the expiration of thirty-six (36) months after a Change in Control (as hereinafter defined) if the Agreement is still in effect on the date of the Change in Control. Furthermore, if the Employee's employment with the Company shall be terminated prior to a Change in Control, this Agreement shall automatically expire.

## 2. TERMINATION BENEFITS.

a) If, following a Change in Control and during the term of this Agreement (including any extensions of such term as provided in Section 1 hereof), the Employee's

employment with the Company shall be terminated, the Employee shall be entitled to the following compensation and benefits (in addition to any compensation and benefits provided for under any of the Company's employee benefit plans, policies and practices or under the terms of any other contracts):

1) If the Employee's employment with the Company shall be terminated by the Employee other than for Good Reason, except during the Voluntary Termination Period (as hereinafter defined) or other than by reason of the Employee's Disability, Retirement or death as set forth in Subsection 2. a) 4), the Company shall pay the Employee his/her full base salary earned but not yet paid through the Date of Termination at the greater of the rate in effect at the time the Change in Control occurred or when the Notice of Termination was given, plus any bonuses or incentive compensation which pursuant to the terms of any compensation or benefit plan have been earned and are payable as of the Date of



Termination. For purposes of this Agreement, bonuses and incentive compensation shall be considered payable if all conditions for earning them have been met, and any requirement that Employee be actively employed as of the date of payment shall be disregarded.

2) If the Employee's employment with the Company shall be terminated for Cause, the Company shall pay the Employee his/her full base salary earned but not yet paid through the Date of Termination at the rate in effect at the time Notice of Termination is given and the Company shall have no further obligations to the Employee under this Agreement.

3) If the Employee's employment with the Company shall be terminated (A) by the Company other than for Cause, or (B) by the Employee for Good Reason, or (C) by the Employee during the Voluntary Termination Period, then the following provisions shall apply:

A) The Company shall, within five (5) days after the Date of Termination, pay the Employee his/her full base salary earned but not yet paid through the Date of Termination at the greater of the rate in effect at the time the Change in Control occurred or when the Notice of Termination was given, plus any bonuses or incentive compensation which

2

3

pursuant to the terms of any compensation or benefit plan have been earned and are payable as of the Date of Termination, but which have not yet been paid.

B) The Company shall within five (5) days after the Date of Termination pay the Employee a lump sum in an amount equal to \_\_\_\_\_ times the amount equal to the sum of (1) the Employee's Annual Base Salary at the greater of the rate in effect at the time the Change in Control occurred or when the Notice of Termination was given plus (2) the maximum bonus or incentive compensation which could have been earned by the Employee during the then-current fiscal year of the Company pursuant to the terms of the incentive compensation plan in which he/she participates. If there is no incentive compensation plan in effect at the time the Notice of Termination is given, then for purposes of this Subsection it shall be assumed that the amount of incentive compensation to be paid to the Employee shall be the same as the amount which he/she could have earned during the last year during which there was an incentive compensation plan in effect.

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

3

continuation coverage as provided by the Consolidated Omnibus Budget Reconciliation Act (COBRA) at the conclusion of the coverage provided under this Subsection.

D) In the event that any payment or benefit [within the meaning of Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "CODE")] to the Employee or for his/her benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with or arising out of his/her employment with the Company or a Change in Control of the Company or of a substantial portion of its assets (a "PAYMENT" or "PAYMENTS") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereafter collectively referred to as the "EXCISE TAX"), then the Employee will be entitled to receive an additional payment (a "GROSS-UP PAYMENT") in an amount such that after payment by the Employee of all taxes (including any interest or penalties, other than interest and penalties imposed by reason of the Employee's failure to file timely a tax return or pay taxes shown due on his/her return imposed with respect to such taxes and the Excise Tax), including any Excise Tax imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

E) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company's expense by the accounting firm of Coopers and Lybrand L.L.P., or another accounting firm designated by and reasonably acceptable to the Employee which is designated as one of the five largest accounting firms in the United States (the "ACCOUNTING FIRM"). The Accounting Firm shall provide its determination (the "DETERMINATION"), together with detailed supporting calculations and documentation, to the Company and the Employee within five (5) days of the Termination Date if applicable, or such other time as requested by the Company or by the Employee (provided the Employee reasonably believes that any of the Payments may be subject to the Excise Tax); and if the Accounting Firm determines that no Excise Tax is payable by the Employee with respect to a Payment or Payments, it shall furnish the Employee with an

opinion reasonably acceptable to the Employee that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten (10) days of the delivery of the Determination to the Employee, the Employee shall have the right to dispute the Determination (the "DISPUTE"). The Gross-Up Payment, if any, as determined pursuant to this Subsection, shall be paid by the Company to the Employee within five (5) days of the receipt of the Accounting Firm's Determination. The existence of the Dispute shall not in any way affect the Employee's right to receive the Gross-Up Payment in accordance with the Determination. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Employee subject to the application of Subsection 2.a)3)F) below.

F) As a result of the uncertainty in the application of Sections 4999 and 280G of the Code, it is possible that a Gross-Up Payment (or a portion thereof) will be paid which should not have been paid (an "EXCESS PAYMENT") or a Gross-Up Payment (or a portion thereof) which should have been paid will not

have been paid (an "UNDERPAYMENT"). An Underpayment shall be deemed to have occurred (A) upon notice (formal or informal) to the Employee from any governmental taxing authority that the Employee's tax liability (whether in respect of the Employee's current taxable year or in respect of any prior taxable year) may be increased by reason of the imposition of the Excise Tax on a Payment or Payments with respect to which the Company has failed to make a sufficient Gross-Up Payment, (B) upon a determination by a court, (C) by reason of determination by the Company (which shall include the position taken by the Company, together with its consolidated group, on its federal income tax return), or (D) upon the resolution of the Dispute to the Employee's satisfaction. If an Underpayment occurs, the Employee shall promptly notify the Company and the Company shall promptly, but in any event at least five (5) days prior to the date on which the applicable government taxing authority has requested payment, pay to the Employee an additional Gross-Up Payment equal to the amount of the Underpayment plus any interest and penalties (other than interest and penalties imposed by reason of the Employee's failure to file timely a tax return or pay taxes shown due on the Employee's return) imposed on the Underpayment. An Excess payment shall be deemed to have occurred upon a Final

5

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Determination (as hereinafter defined) that the Excise Tax shall not be imposed upon a Payment or Payments (or portion thereof) with respect to which the Employee had previously received a Gross-Up Payment. A "FINAL DETERMINATION" shall be deemed to have occurred when the Employee has received from the applicable government taxing authority a refund of taxes or other reduction in the Employee's tax liability by reason of the Excise Payment and upon either (A) the date a determination is made by or an agreement is entered into with the applicable governmental taxing authority which finally and conclusively binds the Employee and such taxing authority, or in the event that a claim is brought before a court of competent jurisdiction, the date upon which a final determination has been made by such court and either all appeals have been taken and finally resolved or the time for all appeals has expired, or (B) the statute of limitations with respect to the Employee's applicable tax return has expired. If an Excess Payment is determined to have been made, the amount of the Excess Payment shall be treated as a loan by the Company to the Employee and the Employee shall pay to the Company on demand [but not less than ten (10) days after the Determination] such Excess Payment plus interest at an annual rate equal to the Applicable Federal Rate provided for in Section 1274(d) of the Code from the date the Gross-Up Payment (to which the Excess Payment relates) was paid to the Employee until the date of repayment to the Company.

G) Notwithstanding anything contained in this Agreement to the contrary, in the event that, according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

4) If the Employee's employment with the Company shall be terminated by reason of the Employee's Disability, Retirement or death at any time after the occurrence of a Change in Control but prior to the end of the Voluntary Termination Period, the Employee shall be entitled to the benefits described in Subsection 2. a) 3). Thereafter, for the duration of this Agreement, if Employee's employment is terminated due to Disability, Retirement or death, Employee shall be entitled to the benefits described in Subsection 2. a) 1).

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b) The Employee shall not be required to mitigate the amount of any payment or benefit provided for in Subsection 2(a) by seeking other employment; nor shall the amount of any payment or benefit provided for in Subsection 2(a) be reduced by any compensation earned by the Employee as a result of employment or otherwise. The amount of any payment or benefit provided for in Section 2 shall be in addition to any compensation or benefits due the Employee under any other written agreement entered into between the Company and the Employee, unless such other agreement expressly provides otherwise.

c) For purposes of this Agreement, the following definitions shall apply:

1) "CHANGE IN CONTROL" shall mean any of the following events:

A) An acquisition (other than directly from the Company) of any voting securities of the Company (the "VOTING SECURITIES") by any Person [as the term "Person" is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 ACT")] immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "NON-CONTROL ACQUISITION" shall mean an acquisition by (A) an employee benefit plan (or a trust forming a part thereof) maintained by (1) the Company or (2) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "SUBSIDIARY"), (B) the Company or any Subsidiary, or (C) any Person in connection with a Non-Control Transaction (as hereinafter defined).

B) The individuals who, as of the date this Agreement is approved by the Board, are members of the Board (the "INCUMBENT BOARD") cease for any reason to constitute at least two-thirds (2/3) of the Board; provided, however, that if the election or nomination for election by the Company's stockholders of any new director was approved by a vote of at least two-thirds (2/3) of the Incumbent Board, such new director shall, for purposes

7

8

of this Agreement, be considered as a member of the Incumbent Board; provided, further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "PROXY CONTEST"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

C) Approval by stockholders of the Company of:

i) A merger, consolidation or reorganization involving the Company, unless

(a) The stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least seventy-five percent (75%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation or reorganization

or the ultimate entity controlling such corporation (the "SURVIVING CORPORATION") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization;

(b) The individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds (2/3) of the members of the board of directors of the Surviving Corporation and no agreement, plan or arrangement is in place to change the composition of the board following the merger, consolidation or reorganization; and

(c) No Person [other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of twenty percent (20%) or more of the then-outstanding Voting Securities] has Beneficial Ownership of twenty

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percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding Voting Securities;

(d) A transaction described in clauses (a) through (c) shall herein be referred to as a "NON-CONTROL TRANSACTION."

ii) A complete liquidation or dissolution of the Company; or

iii) An agreement for the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "SUBJECT PERSON") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then-outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

2) "DISABILITY" shall mean a physical or mental illness which impairs the Employee's ability to substantially perform his/her duties as an Employee and as a result of which the Employee shall have been absent from his/her duties with the Company on a full-time basis for six (6) consecutive months.

3) "RETIREMENT" shall mean the voluntary termination of the Employee's employment after having attained age sixty-five (65) or such other age as shall have been fixed in any retirement arrangement established by the Company with the Employee's consent.

9

10

4) A termination for "CAUSE" is a termination by reason of the conviction of the Employee, by a court of competent jurisdiction and following the exhaustion of all possible appeals, of a criminal act involving the Company or its assets.

5) "GOOD REASON" shall mean the occurrence after a Change in Control of any of the following events without the Employee's express written consent:

A) Any change in the Employee's title, authorities, responsibilities (including reporting responsibilities) which, in the Employee's reasonable judgment, does not represent a promotion from his/her status, title, position or responsibilities (including reporting responsibilities) which were in effect immediately prior to the Change in Control; the assignment to him/her of any duties or work responsibilities which, in his/her reasonable judgment, are inconsistent with such status, title, position or work responsibilities; or any removal of the Employee from or failure to reappoint or re-elect him/her to any of such positions, except if any such changes are because of Disability, Retirement, death or Cause;

B) A reduction by the Company in the Employee's Annual Base Salary as in effect on the date hereof or as the same may be increased from time to time or a failure by the Company to increase, within twelve (12) months of the Employee's last increase in Annual Base Salary, his/her Annual Base Salary by an amount not less than the greater of (A) six percent (6%) or (B) the average percentage increase in Annual Base Salary for all employees of the Company at the Employee's grade level during the twelve (12) month period immediately following the Employee's last increase in base salary; provided, however that the Company's failure to increase the Employee's Annual Base Salary more than eight percent (8%) annually shall not constitute Good Reason under this Subsection under any circumstances;

C) The relocation of the Employee's office at which he/she is to perform his/her duties to a location more than thirty (30) miles from the location at which the Employee performed his/her duties prior to the Change in Control, except for required travel on the Company's business to an extent substantially consistent with his/her business travel obligations prior to the Change in Control;

D) The adverse and substantial alteration of the nature and quality of the office space within which the Employee performed his/her duties prior to a Change in Control, including the size and location thereof, as well as in the secretarial and administrative support provided to the Employee;

E) The failure by the Company to continue in effect any incentive, bonus or other compensation plan in which the Employee participates, including but not limited to the Company's stock-related incentive plans and annual incentive compensation plans, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue the Employee's participation therein, or any action by the Company which would directly or indirectly materially reduce his/her participation therein or reward opportunities thereunder;

F) The failure by the Company to continue in effect any employee benefit plan (including any medical, hospitalization, life insurance, dental or disability benefit plan in which the Employee participated) or any material fringe benefit or perquisite enjoyed by the Employee at the time of the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute

or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue the Employee's participation therein, or any action by the Company which would directly or indirectly materially reduce his/her participation therein, or the failure by the Company to provide the Employee with the number of paid vacation days to which he/she would be entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the Change in Control;

G) Any material breach by the Company of any provision of this Agreement;

H) The failure of the Company to obtain a satisfactory agreement from any successor or assign of the Company to assume and agree to perform this Agreement, as contemplated in Section 3 hereof; or

11

12

I) Any purported termination of the Employee's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection 2.c)6); and for purposes of this Agreement, no such purported termination shall be effective. The Employee's right to terminate employment for Good Reason shall not be affected by his/her incapacity due to physical or mental illness.

6) "NOTICE OF TERMINATION" shall mean a notice which shall indicate the specific termination provision in this Agreement which is relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated. Any purported termination by the Company or by the Employee shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 5 hereof. For purposes of this Agreement, no such purported termination shall be effective without such Notice of Termination.

7) "DATE OF TERMINATION" shall mean:

A) If the Employee's employment is terminated for Disability, thirty (30) days after Notice of Termination is given [provided that the Employee shall not have returned to the performance of his/her duties on a full-time basis during such thirty (30) day period]; and

B) If the Employee's employment is terminated for any other reason, the date specified in the Notice of Termination [which in the case of a termination pursuant to Subsection 2.c)4) above shall not be less than thirty (30) days, and in the case of a termination pursuant to Subsection 2.c)5) above shall not be more than sixty (60) days, after the date such Notice of Termination is given]; provided that if within thirty (30) days after any Notice of Termination is given, the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined either by mutual written agreement of the parties, or by the final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been taken). Notwithstanding the pendency of any such dispute, the Company will continue to pay the Employee his/her full base salary and

12

13

will continue the Employee as a participant in all compensation, incentive, bonus, pension, profit sharing, benefit and insurance plans in which he/she was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection.

8) "ANNUAL BASE SALARY" shall mean that yearly compensation rate established from time to time by the Company as an employee's regular compensation for the next succeeding twelve (12) month period payable to an Employee by the Company's payroll checks on a periodic basis.

9) "VOLUNTARY TERMINATION PERIOD" shall mean the thirty (30) day period beginning twelve (12) months following a Change in Control during which the Employee may terminate employment voluntarily, without Good Reason, and be entitled to the Termination Benefits set forth in Subsection 2.a)3). If the Employee provides Notice of Termination at any time during the thirty (30) day period, the termination shall be deemed to have occurred within the Voluntary Termination Period, regardless when the Employee's Date of Termination shall occur. The failure of the Employee to provide Notice of Termination during the Voluntary Termination Period shall not be construed as a waiver of any other rights under this Agreement, including any right to assert that a termination is for Good Reason, regardless whether the occurrence of the event giving rise to Good Reason shall have been before or after the Voluntary Termination Period.

### 3. SUCCESSORS; BINDING AGREEMENT.

a) The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform it if no such succession or assignment had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

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14

b) This Agreement shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amounts would still be payable to him/her hereunder if he/she had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatee or other designee, and if there is no such devisee, legatee or designee, to the Employee's estate.

4. FEES AND EXPENSES. Following a Change in Control, the Company shall pay all legal fees and related expenses (including the costs of experts, evidence and counsel) incurred by the Employee as a result of (A) the Employee's termination of employment (including all such fees and expenses, if any, incurred in contesting or disputing any such termination of employment whether or not such contest or dispute is resolved in the Employee's favor), or (B) the Employee seeking to obtain or enforce any right or benefit provided by this Agreement or by any other plan or arrangement maintained by the Company under which the Employee is or may be entitled to receive benefits, or (C) the Employee's challenge of any Determination by the IRS that Payments together with any Gross-Up Payment would be subject to the Excise Tax imposed by Section 4999 of the Code.

5. NOTICE. For the purposes of this Agreement, notices and all other



communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith. All notices and communications shall be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address shall be effective only upon receipt.

6. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing and signed by

the Employee and such officer of the Company as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

7. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of Kentucky without giving effect to the conflicts of laws principles thereof.

8. SEVERABILITY. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

9. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof, including specifically the agreement between the parties which was effective on \_\_\_\_\_.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Employee has executed this Agreement, each as of the day and year set forth below.

ATTEST: HUMANA INC.

BY: \_\_\_\_\_  
(Assistant) Secretary

BY: \_\_\_\_\_  
Senior Vice President

DATE: \_\_\_\_\_

"EMPLOYEE"  
\_\_\_\_\_

DATE: \_\_\_\_\_



## EMPLOYMENT AGREEMENT

THIS AGREEMENT is made by and between Wayne T. Smith ("Employee") and Humana Inc. ("Humana") as of January 1, 1995.

## WITNESSETH

WHEREAS, Employee serves as President and Chief Operating Officer of Humana; and

WHEREAS, Employee has participated in and continues to participate in the major decisions affecting Humana, its employees and its shareholders and through his services has made a major contribution to the management of Humana; and

WHEREAS, it is in the best interest of Humana to retain employees with the level of expertise and experience which Employee possesses; and

WHEREAS, the Compensation Committee of the Board of Directors ("Committee") of Humana has determined that it is in the best interest of Humana to enter into an Employment Agreement with Employee;

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, the parties agree as follows:

1. TERM OF THE AGREEMENT. This Agreement shall commence as of January 1, 1995, and shall continue in effect for one (1) year; provided, however, that, commencing on the first anniversary of the Agreement and each anniversary thereafter, this Agreement shall automatically renew for an additional one-year term unless Employee or the Board of Directors ("Board") determines to terminate it and provides notice of such determination within one hundred eighty (180) days prior to the beginning of any renewal term.

2. CONTINUED EMPLOYMENT. Employee agrees to continue in the employment of Humana during the term of this Agreement and devote his best efforts to the business and affairs of Humana.

3. CONFIDENTIAL INFORMATION.

(i) Employee recognizes and acknowledges that during the term of employment Employee will develop, have access to and come into possession of trade secrets and confidential information of Humana including, without limitation, software systems, specifications, programs and documentation, the methods and data which Humana owns, plans or develops, whether for its own use or for use by its clients, developments, designs, inventions and improvements, trade secrets and works of authorship, customer lists, supplier lists, proposals, marketing plans and procedures, all of which are confidential and are the property of Humana. Employee further recognizes and acknowledges that in order to enable Humana to perform services for its customers, those customers may furnish to Humana confidential information concerning their business

affairs, property, methods of operation or other data and that the goodwill afforded to Humana and its employees requires keeping such services and information confidential. All of these materials and information including, without limitation, those relating to Humana's systems and customers, will be referred to below as "Proprietary Information."

(ii) Employee agrees that during the term of Employee's employment with Humana and thereafter, Employee will keep any and all Proprietary Information confidential and will not disclose any Proprietary Information, directly or indirectly, to any third person or entity, without the prior written consent of Humana. Employee further agrees that during the term of Employee's employment with Humana and thereafter Employee will not use, handle, copy or duplicate, in part or in whole, any Proprietary Information, except as directed by Humana and in the ordinary course of Humana's business. This confidentiality covenant has no temporal, geographic or territorial restriction.

(iii) Employee agrees that upon request by Humana, and in any event immediately upon termination of Employee's employment, Employee shall turn over to Humana all property, keys, notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, software, cards, surveys, maps, logs, machines, technical data, work product or any other tangible product or document which has been produced by, received by or otherwise submitted or made available to Employee during or prior to Employee's employment with Humana.

(iv) Employee understands and agrees that all Proprietary Information is and shall remain the property of Humana and that Employee has not and will not appropriate for Employee's own use or for the use of any third party any Proprietary Information. Furthermore, Employee hereby assigns and agrees to assign to Humana or its subsidiaries or affiliates, as appropriate, its successors, assigns or nominees, Employee's entire right, title and interest in any developments, designs, patents, inventions and improvements, trade secrets, trademarks, copyrightable subject matter or other Proprietary Information which Employee has made or conceived, or may make or conceive, either solely or jointly with others, while providing services to Humana, or with the use of time, material or facilities of Humana or relating to any actual or anticipated business, research, development, product, service or activity of Humana known to Employee while employed by Humana, or suggested by or resulting from any task assigned to Employee or work performed by Employee for or on behalf of Humana, whether or not such work was performed prior to the date of this Agreement.

4. COVENANT NOT TO COMPETE. Employee agrees that because of the confidential and sensitive nature of the Proprietary Information and because the use of, or even the appearance of the use of, the Proprietary Information in certain circumstances may cause irreparable damage to Humana and its reputation, or to customers of Humana, Employee will not, from the date of this Agreement until the expiration of one (1) year after the date on which Employee's

employment with Humana terminates for any reason, directly or indirectly, own, manage, operate, join, control, be employed by, or participate in the ownership, management, operation or control of or be connected in any manner, including as director, officer, consultant, independent contractor, employee, partner, or investor with any business, enterprise, organization or other individual or entity which solicits business, performs services or delivers goods that are comparable to or competitive with any business of Humana; provided, however, that the ownership of less than five percent (5%) of the outstanding capital stock of any entity with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, shall not be prohibited by this Section 4.

5. NON-SOLICITATION. Employee agrees that during the term of Employee's employment with Humana and for a period of one (1) year thereafter, Employee will not interfere with Humana's relationship with, or endeavor to entice away from Humana, any business, enterprise, organization or other individual or entity, which is an employee, customer or supplier of Humana, or which maintains a business relationship with any business of Humana.

6. COMPENSATION AND BENEFITS.

(i) Employee's base salary will be set by Humana from time to time and will not be less than Employee's base salary as of the effective date of this Agreement. Humana may raise Employee's base salary, but shall not lower such base salary. Each year's base salary will be payable in arrears in twenty-six (26) equal bi-weekly installments.

(ii) Employee shall be eligible to participate in (a) all management incentive compensation plans, stock option and other equity based incentive plans, bonus plans and deferred compensation plans maintained by Humana from time to time (awards under which shall be subject to the discretion of the Compensation Committee) as well as (b) Humana's savings and retirement plans, (c) Humana's health plan, disability income plan, life insurance plan (collectively the "Welfare Plans"), and (d) all other employee benefit plans now in effect or hereafter adopted by Humana so long as they are maintained during the term of the Agreement, Employee's participation therein to be commensurate with his compensation and position and to be determined in accordance with the same general principles applied in determining the participation of other employees, other than as otherwise specified herein.

7. TERMINATION WITHOUT CAUSE. If Employee is terminated by Humana at any time during the term of this Agreement other than for Cause, as defined herein, or shall receive the notification described in Section 1 of this Agreement, he shall be entitled to the following:

(i) Payment in a lump sum within five (5) days of termination of an amount equal to one time his then-current base salary.

(ii) Immediate and full vesting of any stock options which are not otherwise exercisable or payable as of the date of termination of employment. The expiration or

termination of awards will be governed by the terms of the plans under which they were initially granted; provided that Employee shall be treated as retiring from the Company for purposes of determining when his stock options expire.

(iii) Payment of benefits under the Humana Officers' Target Retirement Plan ("Target Plan") calculated so that Employee is deemed, for the purpose of vesting under the Target Plan, to be the greater of age fifty-five (55) or Employee's actual age at date of termination. For purposes of the Target Plan, Average Participating Compensation shall be calculated, based on the highest three (3) of the last ten (10) Plan years coincident with or preceding Employee's termination.

(iv) Continuation of life insurance coverage at no cost to

employee to age sixty-five (65) on the same terms and at the same levels as when he was employed.

(v) Continuation of health insurance coverage, under an insured health program available to Humana employees, until age sixty-five (65) at the cost for such coverage calculated in the manner provided under the Consolidated Omnibus Budget Reconciliation Act (COBRA). Employee's spouse also shall be entitled, as Employee's dependent, to continuation of health insurance coverage until she reaches age sixty-five (65) under the same plans as Employee and subject to the same terms and cost of coverage under those plans as Employee. However, once Employee reaches age sixty-five (65) and is entitled to coverage under Medicare (or its successor), he shall not be entitled to dependent coverage under his spouse's coverage.

8. TERMINATION FOR CAUSE. If Humana terminates Employee's employment with Humana for Cause, then this Agreement shall terminate and Humana shall have no further obligation to pay Employee any amounts under this Agreement except base salary already earned and payable, but not yet paid. Termination of participation and benefits under the Welfare Plans and other employee benefit plans of the Company shall be in accordance with the particular terms and provisions of each such plan.

A termination is for "Cause" if Employee (a) intentionally engaged in conduct which is demonstrably and materially injurious to Humana; provided, however, that no act, nor failure to act, on Employee's part, shall be considered "intentional" unless he has acted, or failed to act, with a lack of good faith and with a lack of reasonable belief that his action or failure to act was in the best interest of Humana, or (b) is convicted by a court of competent jurisdiction and following the exhaustion of all possible appeals, of a criminal act involving Humana or its assets. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause unless there shall have been delivered to Employee a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to Employee and an opportunity for Employee, together with his counsel, to be heard before the Board), finding that in the opinion of the Board that the acts set forth in (a) or (b) above occurred as set forth herein and specifying the particulars thereof in detail.

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9. VOLUNTARY RESIGNATION DURING THE TERM. In the event that Employee shall voluntarily resign during the term of this Agreement, he shall be entitled to the compensation and benefits set forth in Section 7(i), (iii), (iv) and (v). Termination of participation under other benefit plans of the Company shall be in accordance with the particular terms and provisions of such plans.

10. TERMINATION DUE TO DISABILITY OR DEATH. Employee's severance of employment during the term of this Agreement due to permanent and total disability shall not be considered a voluntary resignation. In this event, Employee shall be entitled to the benefits set forth in Section 7(i), (ii), (iii), (iv) and (v). In the event Employee dies during the term of this Agreement, Employee's beneficiary or beneficiaries or estate as appropriate shall be entitled to the benefits set forth in Section 7(i), (ii) and (iii).

11. CHANGE IN CONTROL. In the event of a Change in Control, as defined in Employee's severance protection agreement dated February 19, 1993, as amended and restated as of November 3, 1994, and as it may be amended from time to time ("Severance Protection Agreement"), his benefit under the Target

Plan shall be calculated with additional service credits, if necessary, so that he is deemed to have thirty (30) years of service. In addition, his benefit shall be calculated in accordance with the terms of the Target Plan or in accordance with Section 7(iii) hereunder, whichever shall be more beneficial to Employee. The benefits set forth in Section 7(iv) and (v) shall commence at the conclusion of the continuation of benefits described in Subsection 2)a)3)C) of the Severance Protection Agreement.

12. THIS AGREEMENT supersedes and rescinds the Letter Agreement between Humana and Employee dated June 18, 1992, and the Employment Agreement between Employee and Humana dated April 1, 1987. All other agreements between Humana and Employee continue in full force and effect.

13. BINDING EFFECT. This Agreement and any amendments hereto shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

14. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky without regard to its rules of conflict of laws. The parties hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the courts of the Commonwealth of Kentucky and of the United States of America located in the Commonwealth of Kentucky for any litigation arising out of or relating to this Agreement and the transactions contemplated hereby; and agree not to commence any litigation relating thereto except in such courts.

15. SEVERABILITY. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so

broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

IN WITNESS WHEREOF, Humana has caused this Agreement to be executed by its duly authorized officer and Employee has executed this Agreement, each as of the day and year set forth above.

HUMANA INC.

Arthur P. Hipwell

By: \_\_\_\_\_  
Senior Vice President

Wayne T. Smith

Employee: \_\_\_\_\_  
Wayne T. Smith

## HUMANA OFFICERS' TARGET RETIREMENT PLAN

AMENDED AND RESTATED AS OF

JANUARY 1, 1995

## HUMANA OFFICERS' TARGET RETIREMENT PLAN

AMENDED AND RESTATED AS OF

JANUARY 1, 1995

WHEREAS, on May 10, 1990, Humana Inc. ("Humana"), a Delaware corporation with its principal place of business in Louisville, Kentucky ("Sponsoring Employer"), adopted the Humana Officers' Target Retirement Plan ("Plan"), and

WHEREAS, the Board of Directors of the Sponsoring Employer desires to amend the Plan, and has authorized and approved the amendment and restatement of the Plan provided for herein,

NOW, THEREFORE, the Sponsoring Employer, pursuant to the right to amend in Article 8, hereby approves and adopts this amendment and restatement of the Plan effective January 1, 1995, which should read as follows:

## ARTICLE 1

## PURPOSE AND APPLICABILITY OF PLAN

1.01 The purpose of the Plan shall be to provide supplemental retirement benefits to Participants upon the terms and conditions and subject to the limitations contained herein.

1.02 The provisions of the Plan shall apply only to persons who are Officers of the Sponsoring Employer or other key management employees designated by the Committee on and after the Effective Date.

## ARTICLE 2

## DEFINITIONS

As used herein the following words and phrases shall have the meanings specified below, unless a different meaning is plainly required by context. The meaning of any term not specifically defined below will be governed by the definition in the Humana Retirement and Savings Plan.

2.01 The term "Attained Age" shall mean, unless clearly indicated to the contrary, the age of a Participant as of the Participant's last birthday.

2.02 The term "Average Participating Compensation" shall mean the average of Participating Compensation as determined using the highest three (3) Plan Years of the Participant's last five (5) Plan Years (including any partial Plan Year) coincident with or preceding the Participant's Early or Normal Retirement Date, Disability Retirement Date, Late



Retirement Date, date of death or Change in Control. If the Participant has fewer than three (3) full Plan Years of Participating Compensation, Average Participating Compensation shall be based on the number of full Plan Years that the Participant has Participating Compensation.

2.03 The term "Annual Retirement Benefit" shall mean an amount equal to the Participant's Average Participating Compensation multiplied by the lesser of (i) fifty percent (50%), or (ii) a percentage equal to 1.67% times the Participant's Service.

2.04 The term "Beneficiary and Secondary Beneficiary" shall mean the person or persons (or an estate or trust) as set forth under the Employer Retirement Account.

2.05 The term "Board of Directors" shall mean the Board of Directors of the Sponsoring Employer.

2.06 The term "Change in Control" shall mean the following:

A) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any Person (as the term "Person" is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (A) an employee benefit plan (or a trust forming a part thereof) maintained by (1) the Company or (2) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), (B) the Company or any Subsidiary, or (C) any Person in connection with a Non-Control Transaction (as hereinafter defined).

B) The individuals who, as of the date of this Plan, are members of the Board (the "Incumbent Board") cease for any reason to constitute at least two-thirds (2/3) of the Board; provided, however, that if the election or nomination for election by the Company's stockholders of any new director was approved by a vote of at least two-thirds (2/3) of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; provided, further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

C) Approval by stockholders of the Company of:

2

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i) A merger, consolidation or reorganization involving the Company, unless;

(a) The stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least seventy-five

percent (75%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation or reorganization or the ultimate entity controlling such corporation (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization;

(b) The individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds (2/3) of the members of the board of directors of the Surviving Corporation and no agreement, plan or arrangement is in place to change the composition of the board following the merger, consolidation or reorganization; and

(c) No Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of twenty percent (20%) or more of the then-outstanding Voting Securities) has Beneficial Ownership of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then-outstanding Voting Securities;

(d) A transaction described in clauses (a) through (c) shall herein be referred to as a "Non-Control Transaction."

ii) A complete liquidation or dissolution of the Company; or

iii) An agreement for the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person ("Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Sponsoring Employer which, by reducing the number of Voting Securities outstanding, increases the proportional number of Shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Sponsoring Employer, and after such share acquisition by the Sponsoring Employer, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

2.07 The term "Code" shall mean the Internal Revenue Code of 1986, as it has been and may be amended from time to time. Reference to any section of the Code shall include any provision which is a successor thereto.

2.08 The term "Committee" shall mean the Compensation Committee of the Board of Directors.

2.09 The term "Current Compensation" shall mean the Participant's current annual base salary, plus the maximum percentage of base salary which the Participant could receive based on any incentive compensation or bonus plan in which he/she participates.

2.10 The term "Disability Retirement Date" shall mean the date a Participant's employment is terminated due to Total and Permanent Disability.

2.11 The term "Disabled Participant" shall mean any Participant who has been credited with at least ten (10) Years of Service and who is Totally and Permanently Disabled.

2.12 The term "Disability Payment" shall mean Monthly Retirement Income due a Disabled Participant.

2.13 The term "Early Retirement Date" shall mean, for each Participant who has been credited with at least ten (10) Years of Service and whose Attained Age is at least fifty-five (55), the first day of the month immediately following or coinciding with the date such Participant shall retire prior to the Participant's Normal Retirement Date.

2.14 The term "Effective Date" shall mean May 10, 1990.

2.15 The term "Humana SERP" shall mean the Humana Supplemental Executive Retirement Plan as it may be amended from time to time.

2.16 The term "Retirement Account and SERP Benefit" shall mean an amount equal to the life annuity equivalent of the account balances in the Retirement Account in the Humana Retirement and Savings Plan and the Humana SERP, using a conversion factor based upon an interest rate of eight percent (8%) and the 1983 GAM table with no setback.

2.17 The term "Late Retirement Date" shall mean the first day of any month subsequent to the Participant's Normal Retirement Date coinciding with or immediately following the date the Participant terminates employment for any reason other than death.

2.18 The term "Monthly Retirement Income" shall mean a monthly income due a Retired Participant which shall commence as of his Early, Normal or Late Retirement Date, or the commencement date of payments due to disability.

2.19 The term "Normal Retirement Date" shall mean the first day of the month coinciding with or immediately following the Participant's sixty-fifth (65th) birthday.

2.20 The term "Officer" shall mean the Chief Executive Officer, President, all Vice-Presidents, Secretary and Treasurer of the Sponsoring Employer who have been duly elected as officers of the Sponsoring Employer by the Board of Directors.

2.21 The term "Participant" shall mean any Officer of the Sponsoring Employer or other key management employee who has become a Participant as provided in Article 3 hereof.

2.22 The term "Participating Compensation" shall mean the Participant's annual base salary in effect for the first full pay period in the Plan Year, plus any incentive compensation or bonus earned by the Participant in the immediately preceding Plan Year and payable during the current Plan Year, whether or not actually paid to the Participant during the Plan Year.

2.23 The term "Plan Administrator" shall mean the Sponsoring Employer.

2.24 The term "Plan Year" shall mean the twelve (12) month period commencing on the first day of January and ending on the last day of the immediately following December.

2.25 The term "Primary Insurance Amount" as of any date shall mean the monthly amount of old age benefits payable to a Participant commencing at the

Participant's unreduced Social Security retirement age. The amount will be calculated based on the Social Security Act in effect as of the date of calculation, without regard to any dependent benefits.

2.26 The term "Retired Participant" shall mean any Participant who has retired from Humana and who is receiving a Monthly Retirement Income.

2.27 The term "Retirement and Savings Plan" shall mean the Humana Retirement and Savings Plan adopted effective as of the Distribution Date, as it may be amended from time to time or its successor plan.

2.28 The term "Retirement Account" shall mean the Retirement Account in the Humana Retirement and Savings Plan.

2.29 The term "Service" shall mean all years and completed months of Service with the Sponsoring Employer or any corporation which is a member of the "affiliated group" (as defined in Section 1054(a) of the Code) of the Sponsoring Employer.

2.30 The term "Sponsoring Employer" shall mean Humana Inc., a Delaware corporation.

2.31 The term "Spouse" shall mean the legally married spouse of the Participant at the Participant's date of death; provided, however, that for purposes of Section 4.04(b), "Spouse"

shall mean the legally married spouse of the Participant at the earlier of the Participant's date of death or commencement of benefits under that section.

2.32 The term "Target Plan" or "Plan" shall mean the Humana Officers' Target Retirement Plan provided for herein, as it may be amended from time to time.

2.33 The term "Total and Permanent Disability" shall mean a physical or mental condition that renders the Participant eligible for disability benefits under the Retirement and Savings Plan.

### ARTICLE 3

#### PARTICIPATION IN THE PLAN

3.01 Each person who is an Officer of the Sponsoring Employer on and after the Effective Date or a key management employee designated by or at the direction of the Committee shall be a Participant in this Plan to the extent of the benefits provided herein.

3.02 Each Officer or key management employee designated hereunder shall be notified upon becoming a Participant.

### ARTICLE 4

#### RETIREMENT INCOME

4.01 When a Participant retires on his Normal Retirement Date, he shall be entitled to receive a Monthly Retirement Income under this Plan in an amount provided in Section 4.01(a), reduced by the amounts provided in Section 4.01(b) and (c).

4.01(a) An amount equal to one twelfth (1/12) of the Participant's Annual Retirement Benefit.

4.01(b) The amount provided in 4.01(a) shall be reduced by the Retirement Account and Humana SERP Benefit.

4.01(c) The amount provided in 4.01(a) shall also be reduced by the Participant's Primary Insurance Amount; provided that in the case of a Participant taking Early Retirement, such reduction shall only apply when the Participant is eligible for an unreduced Primary Insurance Amount.

4.02 A Participant may remain in the employ of the Sponsoring Employer after his Normal Retirement Date, in which event no Monthly Retirement Income shall be paid until the

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Participant's Late Retirement Date. The benefit payable at the Participant's Late Retirement Date shall be equal to the amount as determined in Section 4.01 except that the Participant's Average Participating Compensation, Years of Service, Retirement Account and Humana SERP Benefit and Primary Insurance Amount shall be determined as of the Participant's Normal or Late Retirement Date, whichever would produce the greater benefit under this Plan. In no event, however, will the Participant's Annual Retirement Benefit exceed fifty percent (50%) of his Average Participating Compensation as of his Normal or Late Retirement Date, whichever is greater.

4.03 Upon the written application of the Participant received by the Plan Administration, a Participant whose Attained Age is at least fifty-five (55) and who has been credited with at least ten (10) Years of Service shall be retired as of an Early Retirement Date. Commencing at his Early Retirement Date, such Participant shall be entitled to a benefit computed in accordance with Section 4.01; provided, that the amount set forth in Section 4.01(a) shall be reduced by two/twelfths percent (2/12%) of that amount for each full month that payments commence prior to the Participant's Normal Retirement Date to a maximum reduction not to exceed twenty percent (20%). Such reduction shall not apply in the event of a Change in Control. A Participant taking an Early Retirement Benefit may also request an alternate form of distribution in accordance with Section 4.04.

4.04 The basic form of payment of the Annual Retirement Benefit shall be a Monthly Retirement Income specified in Section 4.01 which shall be paid on a monthly basis commencing on the Participant's Disability, Early, Normal or Late Retirement Date, payable for the life of the Participant.

A Participant may request the Committee to approve an alternate form of payment of the benefits under this Plan. Such request shall be in writing and shall be filed at least sixty (60) days before the payment is to be made or commenced. Once a request is approved, it shall be binding on the Participant. Alternative forms of payment are as follows:

4.04(a) A monthly income payable to the Participant for either sixty (60), one hundred and twenty (120), one hundred and eighty (180), or two hundred and forty (240), payments guaranteed. Upon the Participant's death, distribution of his remaining benefit, if any, shall be made to the Participant's Beneficiary or Secondary Beneficiary.

4.04(b) A monthly income payable for the lifetime of the Participant, with one-half (1/2) of such amount continuing to the Participant's Spouse after the Participant's death, for the lifetime of the Spouse.

4.04(c) A single sum payment to the Participant.

4.04(d) Any other form of payment which is actuarially equivalent and is approved by the Committee.

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If the single sum value of the Participant's Monthly Retirement Income is less than fifty thousand dollars (\$50,000), the benefit shall be paid to the Participant as a single sum.

The alternate forms as provided in 4.04(a), (b) and (c) above, shall be determined using the same conversion factor as is used to determine the Retirement Account and SERP Benefit as defined in Section 2.16.

4.05 If a Participant who has been credited with at least ten (10) Years of Service should die before benefit payments under the Plan commence, a death benefit shall be payable. Such death benefit shall be equal to the present value of the Participant's monthly retirement income as of the Participant's date of death calculated in accordance with this Article 4 as if the Participant had retired on his date of death; provided, however, that the reduction for the Primary Insurance Amount set forth in Section 4.01(c) shall not apply. Such death benefit shall be paid to the Participant's Beneficiary as a single sum in accordance with the provisions of Section 4.04(c).

If a death benefit is payable under this Article 4, and the designated Beneficiary has predeceased the Participant, the death benefit shall be paid to the Secondary Beneficiary. If neither the Beneficiary nor the Secondary Beneficiary is living at the time of the death of the Participant, or if there is not a valid Beneficiary designated, the Sponsoring Employer shall pay the death benefit to the Participant's estate. If the Beneficiary or Secondary Beneficiary is living at the death of the Participant, but such person dies prior to receiving the entire death benefit, the remaining portion of such death benefit shall be paid in a single sum to the estate of such deceased Beneficiary or Secondary Beneficiary.

## ARTICLE 5

### BENEFITS UPON DISABILITY

5.01 If a Participant who has been credited with ten (10) or more Years of Service is determined to be Totally and Permanently Disabled prior to his Normal Retirement Date, such Disabled Participant shall be retired as of the date provided in the Retirement and Savings Plan. In such event, the Disabled Participant's benefit under this Plan shall be deferred until his Normal Retirement Date. The amount of the Participant's Monthly Retirement Income payable on account of such Disability Retirement shall be calculated in accordance with Section 4.01, provided that his Average Participating Compensation shall be determined as of his date of disability. Years of Service shall be calculated as though the Disabled Participant had continued in employment until his Normal Retirement Date, and the Participant's life annuity equivalent of the account balance in the Retirement Plan Account shall be based on such account balance at time of distribution (if prior to age sixty-five (65) projected to age sixty-five (65) at eight percent (8%) per annum).

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5.02 As an alternative, a Participant who has met the requirements for Early Retirement shall be entitled to apply for an Early Retirement Benefit pursuant to the provisions of Section 4.03. If such Early Retirement Benefit is elected, the continued accruals provided for above will cease as of the Participant's Early Retirement Date.

5.03 If a Disabled Participant should die before benefit payments under this Plan commence, a death benefit shall be payable. Such death benefit shall be equal to the present value of the Participant's monthly retirement income as of the Participant's date of death calculated in accordance with Article 4 and shall be paid to the Participant's Beneficiary as a single sum in accordance with the provisions of Section 4.04(c).

In calculating the death benefit, the continued accruals of 5.01 will cease at date of death and the benefit will be reduced as for Early Retirement (as set forth in Section 4.03). The reduction for the Primary Insurance Amount set forth in Section 4.01(c) shall not apply. A Participant under age fifty-five (55) will be deemed to be age fifty-five (55) for purposes of calculating his benefit.

If a death benefit is payable under this Article 5, and the designated Beneficiary has predeceased the Participant, the death benefit shall be paid to the Secondary Beneficiary. If neither the Beneficiary nor the Secondary Beneficiary is living at the time of the death of the Participant, or if there is not a valid Beneficiary designated, the Sponsoring Employer shall pay the death benefit to the Participant's estate. If the Beneficiary or Secondary Beneficiary is living at the death of the Participant, but such person dies prior to receiving the entire death benefit, the remaining portion of such death benefit shall be paid in a single sum to the estate of such deceased Beneficiary or Secondary Beneficiary.

## ARTICLE 6

### BENEFITS UPON CHANGE IN CONTROL

6.01 In the event of a "Change in Control" of the Sponsoring Employer, the benefit of any Participant shall be fully vested and shall be paid out as soon as administratively feasible as a single sum payment in accordance with the provisions of Section 4.04(c). This shall apply to active, retired or disabled Participants regardless of Years of Service. In the case of an active Participant, any benefit to which the Participant is entitled under this Article 6 as a result of a Change in Control ("Change in Control Benefit") shall reduce the benefit to which the Participant would otherwise be entitled under the Plan.

6.02 Any Participant who is under age fifty-five (55) will be deemed to be age fifty-five (55) for purposes of calculating his benefit.

6.03 The amount of benefit will be calculated in accordance with Article 4, except that (i) the reductions in Section 4.01(c) and 4.03 shall not apply, and (ii) until December 31, 1998,

Average Participating Compensation shall mean the higher of the Average Participating Compensation as defined in Section 2.02 or Current Compensation as defined in Section 2.09 as of the date of the Change in Control.

6.04 Notwithstanding the provisions of Section 6.01, if at least 30 days prior to a Change in Control, a Participant elects, in such manner as the Committee shall determine, to defer the payment of all or any portion of the Change in Control Benefit which the Participant would be entitled to receive upon a Change in Control ("Deferral Election"), then the single sum payment referred to in Section 6.01 shall not be made at the time referred to in Section

6.01 and such Change in Control Benefit shall instead be made at the time or times provided for in the Deferral Election. Payment of the Benefit must commence no later than the earlier to occur of (i) the date or age specified by the Participant in the Deferral Election, or (ii) the date on which the Participant terminates employment with the Sponsoring Employer for any reason other than voluntary retirement, death or disability. A Participant deferring any portion of a Change in Control Benefit may further provide for the payment of the Change in Control Benefit in installments over a period not to exceed 10 years. Notwithstanding the foregoing, if a Change in Control occurs after amounts have been deferred by Participants and placed in the Rabbi Trust referred to in Section 6.05 (i.e., a second Change in Control), then the Change in Control Benefit, adjusted as provided in accordance with Section 6.06, shall be paid to Participants as soon as administratively possible following such second Change in Control. A Participant making a Deferral Election may, at any time and from time to time, designate a Beneficiary to receive the Participant's Change in Control Benefit in the event of the Participant's death.

6.05 Upon the effective date of a Change in Control, the Sponsoring Employer shall create a "Rabbi Trust" (i.e., a grantor trust designed to hold funds to be used to pay benefits under a deferred compensation arrangement without such funds becoming taxable to the participants entitled to such benefits until paid to such participants) in the form set forth on Attachment A with a major financial institution in Louisville, Kentucky, selected by the Sponsoring Employer, to which the Sponsoring Employer shall transfer funds in an amount equal to the portion of the Change in Control Benefits elected to be deferred by all Participants making a Deferral Election.

6.06 All deferred Change in Control Benefits shall be deemed invested in one or more of the investments set forth below, as selected by the deferring Participant in the Deferral Election; provided, however, that no less than 10% of the Participant's deferred Change in Control Benefit may be deemed invested in any one investment. A Participant may elect, once during each calendar quarter, to change the manner in which the Participant's Change in Control Benefit is deemed invested beginning on the first day of each calendar quarter. The investments in which Change in Control Benefits may be deemed invested are as follows:

1. Fidelity Balanced Fund;
2. Fidelity Contrafund;
3. Harbor International Fund;
4. Provident Small Cap Fund;

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5. An interest income fund selected by the Trustee;
6. A stock index fund selected by the Trustee.

Notwithstanding the foregoing, in the event an investment set forth above is no longer in existence, then the Committee shall substitute another investment having investment objectives similar to the investment which ceased to exist. The payments to be made to Participants shall be based upon the initial Change in Control Benefit and the effects of the deemed investment of the Change in Control Benefit thereafter.

6.07 If a Participant who has made a Deferral Election is required to include the amount of the Change in Control Benefit in income for federal income tax purposes prior to actual receipt thereof and agrees in a written document delivered to the Internal Revenue Service to pay income tax thereon, such Participant, upon advising the trustee of the Rabbi Trust and the Sponsoring Employer of such fact (and supplying such documents as the trustee of the Rabbi Trust shall require to substantiate such facts), shall be entitled to receive the Change in Control Benefit, as adjusted in accordance with Section 6.06 as



soon as administratively possible.

## ARTICLE 7

### PLAN ADMINISTRATION

7.01 The Committee shall be responsible for making all policy decisions which arise under the Plan. The Plan Administrator shall be responsible for administering the Plan.

7.02 Subject to the limitations of the Plan, the Plan Administrator shall from time to time establish rules for the administration of the Plan. Without limiting the generality of the preceding sentence, it is specifically provided that the Plan Administrator shall set forth the procedures to be followed in presenting claims for benefits under the Plan. The Plan Administrator shall rely on the records of the Sponsoring Employer, as certified to it, with respect to any and all factual matters dealing with the employment of a Participant. In case of any factual dispute hereunder, the Committee shall resolve such dispute giving due weight to all evidence available to it. The Committee shall interpret the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan. All such determinations shall be final, conclusive and binding.

7.03 Except as otherwise specifically provided herein, every decision and action of the Committee shall be valid if concurred in by a majority of the members then in office, which concurrence may be had without a formal meeting.

7.04 The Plan Administrator shall be responsible for the determination of a Participant's benefit in accordance with this Plan.

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7.05 In discharging its duties under this Plan, the Plan Administrator and the Committee may employ such counsel, accountants and other agents as they shall deem advisable. The Sponsoring Employer shall pay the compensation of such counsel, accountants and other agents and any other expenses incurred by the Plan Administrator and the Committee in carrying out their duties under the plan.

## ARTICLE 8

### MODIFICATION AND TERMINATION

8.01 The Sponsoring Employer reserves the right at any time, by action of its Board of Directors, to modify or amend, in whole or in part, any or all of the provisions of the Plan.

8.02 Notwithstanding the provisions of Section 8.01, no amendment, suspension or termination shall adversely affect:

8.02(a) the Monthly Retirement Income of any Participant, or the Beneficiary or Secondary Beneficiary of any Participant who has retired prior thereto, or

8.02(b) the right of any Participant then employed by the Sponsoring Employer who has attained age fifty-five (55) and been credited with ten (10) Years of Service to receive upon death, retirement or disability, the benefit to which such person would have been entitled under the Plan prior to its amendment, suspension or termination.

8.03 The provision of 8.01 shall be inoperative upon a Change in Control.

## ARTICLE 9

### MISCELLANEOUS PROVISIONS

9.01 Neither the interest of a Participant or any other person nor the benefit payable hereunder is subject to the claim of creditors of Participants or their Beneficiaries and will not be subject to attachment, garnishment or any other legal process. Neither a Participant nor his Beneficiaries may assign, sell, borrow against or otherwise encumber any of his beneficial interest in the Plan, nor shall any such benefits be in any manner liable for or subject to the deeds, contracts, liabilities, engagements or torts of any Participant or Beneficiary. All such payments and rights thereto are expressly declared to be non-assignable and non-transferable, and in the event of any attempt of assignment or transfer by the Participant or Beneficiaries, the Sponsoring Employer shall have no further liability hereunder.

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9.02 Although it is the intention of the Sponsoring Employer that this Plan shall be continued, this Plan is entirely voluntary on the part of the Sponsoring Employer, and, subject to the provisions of Article 8, the continuance of the Plan is not assumed as a contractual obligation of the Sponsoring Employer.

9.03 Benefits under this Plan shall be paid exclusively from the general assets of the Sponsoring Employer and no Participant or other person shall have any right or claim to the payment of a benefit which in any manner whatsoever is superior to or different from the right or claim of a general and unsecured creditor of the Sponsoring Employer.

9.04 This Plan shall not be deemed to constitute a contract between the Sponsoring Employer and any Participant or to be a consideration or an inducement for the employment of any Participant. Nothing contained in this Plan shall be deemed to give any Participant the right to be retained in the employment of the Sponsoring Employer or to interfere with the right of the Sponsoring Employer to discharge any Participant at any time regardless of the effect which such discharge shall have upon such individual as a Participant in the Plan.

9.05 This Plan shall be construed and enforced according to the laws of the Commonwealth of Kentucky, and all provisions hereunder shall be administered according to the laws thereof. It is intended that this Plan be exempt from Title I of the Employee Retirement Income Security Act of 1974, as amended, under Section 4(b)(5) thereof, as an excess benefit plan which is unfunded, and any ambiguities in construction shall be resolved in favor of interpretation which will effectuate such intention.

9.06 Any words herein used in the masculine or neuter shall read and be construed in the feminine, masculine or neuter where they would so apply. Words in the singular shall be read and construed as though used in the plural in all cases where they would so apply. Titles of articles are inserted for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles shall control.

9.07 In making any payment to or for the benefit of any minor or incompetent Beneficiary, the Plan Administrator, in its sole, absolute and uncontrolled discretion, may, but need not, make such payment to a legal or natural guardian or other relative of such minor or court appointed committee of

such incompetent, or to any adult with whom such minor or incompetent temporarily or permanently resides, with any such guardian, committee, relative or other person shall have full authority and discretion to expend such distribution for the use and benefit of such minor or incompetent, and the receipt of such guardian, committee, relative or other person shall be a complete discharge of the Sponsoring Employer, without any responsibility on its part or on the part of the Committee to see to the application thereof.

9.08 If a Participant's employment is terminated due to his commission of theft, fraud, or other criminal acts against the Sponsoring Employer or any corporation which is a member of the "affiliated group" (as defined in Section 1054(a) of the Code) with the Sponsoring Employer, such Participant shall not be entitled to receive any benefit under this Plan.

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IN WITNESS WHEREOF, the Sponsoring Employer has caused this instrument to be executed and attested thereto by its duly authorized officers as of this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

HUMANA INC.

Wayne T. Smith

By: \_\_\_\_\_

Attest:  
Joan O. Kroger

Title: President & Chief Operating Officer

\_\_\_\_\_  
Secretary

14

HUMANA THRIFT EXCESS PLAN  
AMENDED AND RESTATED AS OF  
JANUARY 1, 1995

TABLE OF CONTENTS

	Page
	----
ARTICLE 1	
PURPOSE AND APPLICABILITY OF PLAN	
1.1 Purpose of Plan .....	1
1.2 Applicability of Plan .....	2
ARTICLE 2	
DEFINITIONS	
2.1 Beneficiary and Secondary Beneficiary .....	2
2.2 Benefit .....	2
2.3 Board of Directors .....	2
2.4 Change in Control .....	2
2.5 Code .....	4
2.6 Compensation Committee .....	4
2.7 Effective Date .....	4
2.8 Employee .....	4
2.9 Employer .....	4
2.10 Employer Thrift Account .....	4
2.11 Interest Income Fund .....	4
2.12 Normal Retirement Date .....	4
2.13 Participant .....	4
2.14 Participation Date .....	4
2.15 Plan .....	5
2.16 Plan Administrator .....	5
2.17 Plan Year .....	5
2.18 Retirement and Savings Plan .....	5
2.19 Sponsoring Employer .....	5
ARTICLE 3	
PARTICIPATION IN THE PLAN	
3.1 Eligible Employees .....	5
3.2 Provisions of Plan Binding on Participants .....	5
3.3 Notification of Participation .....	5
3.4 Termination of Benefit Accrual .....	5

TABLE OF CONTENTS

ARTICLE 4

BENEFITS

4.1	Amount of Benefits .....	5
4.2	Adjustments to Benefits .....	6
4.3	Eligibility for Payment of Benefits .....	6
4.4	Form of Payment of Benefits .....	6
4.5	Source of Benefits .....	6
4.6	Distributions to Beneficiaries .....	6
4.7	Acceleration Due to Change in Control .....	7

ARTICLE 5

PLAN ADMINISTRATION

5.1	Compensation Committee	
	and Plan Administrator .....	8
5.2	Plan Administrator to Establish Rules and Claims Procedure .....	9
5.3	Decisions of Compensation Committee .....	9
5.4	Employment of Counsel, Etc .....	9

ARTICLE 6

AMENDMENT AND TERMINATION

6.1	Rights Generally to Make Amendments .....	9
6.2	Condition to Amendment .....	9

ARTICLE 7

MISCELLANEOUS PROVISIONS

7.1	Prohibition Against Assignment .....	10
7.2	Plan Voluntary on Part of Employers .....	10
7.3	Plan Not Contract of Employment .....	10
7.4	Construction .....	10
7.5	Payment to Minors, Etc .....	11

4

HUMANA THRIFT EXCESS PLAN  
AMENDED AND RESTATED AS OF

JANUARY 1, 1995

WHEREAS, HUMANA INC. ("Humana"), a Delaware corporation with its principal place of business in Louisville, Kentucky ("Sponsoring Employer"), has adopted the Humana Retirement and Savings Plan ("Retirement and Savings Plan") which is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, ("Code"), and

WHEREAS, certain employees of the Sponsoring Employer and its subsidiaries are eligible for allocations of contributions to Employer Thrift Accounts under the Retirement and Savings Plan, and

WHEREAS, pursuant to the terms of the Retirement and Savings Plan, the allocations of contributions for certain employees of the Sponsoring Employer and its subsidiaries have been and will be restricted because of the limitation on compensation of Section 401(a)(17) of the Code, the nondiscrimination requirements of Sections 401(k) and 401(m) of the Code and the limitation on allocations of contributions of Section 415 of the Code, and

WHEREAS, the Board of Directors of the Sponsoring Employer ("Board of Directors") desires to provide supplemental benefits to a select group of management and highly compensated employees in the amount of the allocations of contributions to Employer Thrift Accounts which would have been made on behalf of such persons in the absence of the aforementioned and any other legal limitations on their participation, and

WHEREAS, effective on May 11, 1988, the Sponsoring Employer adopted the Humana Thrift Excess Plan ("Plan"), and

WHEREAS, the Board of Directors desires to amend and restate the Plan and has authorized this amendment and restatement of the Plan provided for herein,

NOW, THEREFORE, the Sponsoring Employer hereby approves and adopts this amendment and restatement, effective January 1, 1995, which shall read as follows:

## ARTICLE 1

### PURPOSE AND APPLICABILITY OF PLAN

1.1 PURPOSE OF PLAN. The purpose of the Plan shall be to provide supplemental benefits to Participants whose allocations of contributions to Employer Thrift Accounts under the Retirement and Savings Plan are or will be reduced because of the compensation limitation of Section 401(a)(17) of the Code, the nondiscrimination requirements of Sections 401(k) and 401(m) of the Code, the limitation on allocations of contributions of Section 415 of the Code,

5

and any other legal limitations on participation and contributions, upon the terms and conditions, and subject to the limitations, contained herein.

1.2 APPLICABILITY OF PLAN. The provisions of the Plan shall apply only to persons employed by an Employer on and after the Effective Date.

## ARTICLE 2

### DEFINITIONS

As used herein, the following words and phrases shall have the meanings specified below, unless a different meaning is plainly required by the context. The meaning of any term not specifically defined below will be governed by the definition in the Humana Retirement and Savings Plan.

2.1 BENEFICIARY AND SECONDARY BENEFICIARY. The person or persons (or a trust) as set forth under the Retirement and Savings Plan.

2.2 BENEFIT. The benefit described in Article 4.

2.3 BOARD OF DIRECTORS. The Board of Directors of the Sponsoring Employer.

2.4 CHANGE IN CONTROL. Change in Control shall mean any of the following events:

(A) An acquisition (other than directly from the Sponsoring Employer) of any voting securities of the Sponsoring Employer ("Voting Securities") by any "Person" (as the term Person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended ("1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of the combined voting power of the Sponsoring Employer's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Sponsoring Employer or (B) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Sponsoring Employer ("Subsidiary"), (ii) the Sponsoring Employer or any Subsidiary, or (iii) any Person in connection with a

"Non-Control Transaction" (as hereinafter defined).

(B) The individuals who, as of the date of this Plan, are members of the Board of Directors ("Incumbent Board"), cease for any reason to constitute at least two-thirds of the Board of Directors; provided, however, that if the election, or nomination for election by the

2

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Sponsoring Employer's stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; provided, further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board ("Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(C) Approval by stockholders of the Sponsoring Employer of:

(i) A merger, consolidation or reorganization involving the Sponsoring Employer, unless,

(a) The stockholders of the Sponsoring Employer, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least 75% of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation or reorganization ("Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization;

(b) The individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation;

(c) No person (other than the Sponsoring Employer, any subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Sponsoring Employer, the Surviving Corporation or any subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of 20% or more of the then outstanding Voting Securities) has Beneficial Ownership of 20% or more of the combined voting power of the Surviving Corporation's then outstanding Voting Securities; and

(d) A transaction described in clauses (a) through (c) shall herein be referred to as a "Non Control Transaction;"

(ii) A complete liquidation or dissolution of the Sponsoring Employer; or

(iii) An agreement for the sale or other disposition of all or substantially all of the assets of the Sponsoring Employer to any Person (other than a transfer to a Subsidiary).

3

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person ("Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Sponsoring Employer which, by reducing the number of Voting Securities outstanding, increases the proportional number of Shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Sponsoring Employer, and after such share acquisition by the Sponsoring Employer, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

2.5 CODE. The Internal Revenue Code of 1986, as it has been and may be amended from time to time. Reference to any section of the Code shall include any provision successor thereto.

2.6 COMPENSATION COMMITTEE. The Compensation Committee of the Board of Directors of the Sponsoring Employer.

2.7 EFFECTIVE DATE. Effective Date shall mean May 1, 1988.

2.8 EMPLOYEE. A member of a select group of management and highly compensated employees as selected by the Compensation Committee.

2.9 EMPLOYER. The Sponsoring Employer and each corporation which is a member of the affiliated group with the Sponsoring Employer. When used with reference to an Employee or Participant, the term shall mean the Employer employing the Employee or Participant.

2.10 EMPLOYER THRIFT ACCOUNT. The accounts established by that name on behalf of a participant in the Retirement and Savings Plan.

2.11 INTEREST INCOME FUND. The fund established by that name under the Retirement and Savings Plan.

2.12 NORMAL RETIREMENT DATE. The first day of the month coincident with or immediately following the Participant's 65th birthday.

2.13 PARTICIPANT. An Employee who has met the requirements of Article 3 for participation hereunder. Where the context so permits or requires, the term shall also include a person who was a Participant prior to the termination of the Participant's employment with an Employer and who is entitled to a Benefit after such person's employment terminates.

2.14 PARTICIPATION DATE. The later of the Effective Date or the date the Participant becomes eligible for a Benefit.

2.15 PLAN. The Humana Thrift Excess Plan provided for herein, as it may be amended from time to time.

2.16 PLAN ADMINISTRATOR. The Plan Administrator shall be the Sponsoring Employer.

2.17 PLAN YEAR. The twelve consecutive month period commencing on the first day of January and ending on the last day of the immediately following December.



2.18 RETIREMENT AND SAVINGS PLAN. The Humana Retirement and Savings Plan, as it may be amended from time to time.

2.19 SPONSORING EMPLOYER. Humana Inc., a Delaware corporation.

### ARTICLE 3

#### PARTICIPATION IN THE PLAN

3.1 ELIGIBLE EMPLOYEES. Each Employee who is an active participant in the Retirement and Savings Plan on or after the Effective Date, and who meets the requirements for benefits under Article 4 shall participate in this Plan to the extent of the benefits stated herein.

3.2 PROVISIONS OF PLAN BINDING ON PARTICIPANTS. Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of this Plan, including all amendments to the Plan.

3.3 NOTIFICATION OF PARTICIPATION. Each Employee shall be notified when the Employee becomes a Participant.

3.4 TERMINATION OF BENEFIT ACCRUAL. An Employee's accrual of benefits under this Plan shall cease upon the Employee's termination of employment.

### ARTICLE 4

#### BENEFITS

4.1 AMOUNT OF BENEFITS. Each Participant shall become entitled to Benefits under this Plan consisting of the difference, if any, between the actual contribution by the Employer to the Employer Thrift Account on behalf of the Participant for such Plan Year and the amount of the contribution which would otherwise have been made by the Employer on behalf of such Participant for such Plan Year but for the legal limitations on the Participant's contributions and Employer contributions; provided, however, that the Participant shall become entitled to Benefits under this Plan only if such difference is equal to or greater than eight hundred dollars (\$800.00)

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in such Plan Year. No Benefits will accrue with respect to any Plan Year if the Participant ceases to be an active employee before the end of such Plan Year, unless cessation of employment is due to death, retirement, disability or a Change in Control, in which case the Participant will be entitled to any Benefits accrued hereunder until the date on which Participant ceases to be an active employee.

4.2 ADJUSTMENTS TO BENEFITS. The amount of the Benefit set forth in Section 4.1 shall be further adjusted for gains (or losses) as if such amounts were invested in the Interest Income Fund, as such fund is maintained in the Retirement and Savings Plan. The adjustments of earnings (or losses) shall be made in accordance with the same procedures and in the same manner as provided under the Retirement and Savings Plan and, except as otherwise modified herein, the amount of the Participant's Benefit on account of retirement, death or other termination of employment shall be determined as if such amounts were actually invested pursuant to and being paid from the Interest Income Fund.

4.3 ELIGIBILITY FOR PAYMENT OF BENEFITS. The payment of Benefits under the Plan shall commence no later than sixty (60) days following the Participant's termination of employment for any reason, whether voluntarily or involuntarily, or by reason of death, total and permanent disability or retirement. The form of

the payment of the Participant's Benefit shall be governed by Section 4.4 notwithstanding the form of distribution of benefits from the Participant's Employer Thrift Account. The Benefit shall be valued in the same manner as distributions from the Interest Income Fund.

4.4 FORM OF PAYMENT OF BENEFITS. A Participant or Beneficiary may request a manner of payment of the Benefits under the Plan as provided hereinafter. The request by the Participant, or the Beneficiary shall be in writing and shall be filed with the Plan Administrator at least 30 days before the payment is to be made or commenced. The Plan Administrator may approve such request or may disapprove such request and substitute another alternative form. The alternative forms of distribution are as follows:

(a) A lump sum distribution in cash; or

(b) Periodic substantially equal installments (either monthly, quarterly or annually) for a period not to exceed 20 years.

4.5 SOURCE OF BENEFITS. The Benefit shall be paid exclusively from the general assets of the Employer and no Participant or other person shall have any right or claim to the payment of a Benefit which in any manner whatsoever is superior to or different from the right or claim of a general and unsecured creditor of the Employer.

4.6 DISTRIBUTIONS TO BENEFICIARIES. If at the time of a Participant's death a distribution has commenced, the remaining Benefit, if any, shall be paid to the Participant's Beneficiary in a manner at least as fast as the distribution to the Participant. If at the time of a Participant's death while a distribution is still outstanding and the Participant's Beneficiary

6

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does not survive the Participant, the remaining benefits shall be paid to the Participant's Secondary Beneficiary. If distribution has not commenced at the time of the Participant's death, the Beneficiary may request the form of payment of Benefits set forth in Section 4.4. If at the time of a Participant's death while a distribution is still outstanding and the Participant's Beneficiary does not survive the Participant, the remaining benefits shall be paid in a single sum to the estate of the Participant and the Plan Administrator shall be fully protected in paying such benefits to such deceased Participant's personal representative, irrespective of whether payments are actually made to a person or persons who in fact are not the personal representative of the deceased Participant.

4.7 ACCELERATION DUE TO CHANGE IN CONTROL.

(a) In the event of a Change in Control of the Sponsoring Employer, the Benefit of any Participant shall, except as otherwise provided in Section 4.7(b), be distributed as soon as administratively feasible in a lump sum in cash in accordance with the Section 4.4(a). This shall apply to active, retired or disabled Participants. In the case of an active Participant, any benefit to which the Participant is entitled under this Section 4.7(a) as a result of a Change in Control ("Change in Control Benefit") shall reduce the benefit to which the Participant would otherwise be entitled under the Plan.

(b) Notwithstanding the provisions of Section 4.7(a), if at least 30 days prior to a Change in Control, a Participant elects, in such manner as the Committee shall determine, to defer the payment of all or any portion of the Change in Control Benefit which the Participant would be entitled to receive upon a Change in Control ("Deferral Election"), then the single sum payment referred to in Section 4.7(a) shall not be made at the time referred to in Section 4.7(a) and such Change in Control Benefit shall instead be made at the

time or times provided for in the Deferral Election. Payment of the Benefit must commence no later than the earlier to occur of (i) the date or age specified by the Participant in the Deferral Election, or (ii) the date on which the Participant terminates employment with the Sponsoring Employer for any reason other than voluntary retirement, death or disability. A Participant deferring any portion of a Change in Control Benefit may further provide for the payment of the Change in Control Benefit in installments over a period not to exceed 10 years. Notwithstanding the foregoing, if a Change in Control occurs after amounts have been deferred by Participants and placed in the Rabbi Trust referred to in Section 4.7(c) (i.e., a second Change in Control), then the Change in Control Benefit, adjusted as provided in accordance with Section 4.7(d), shall be paid to Participants as soon as administratively possible following such second Change in Control. A Participant making a Deferral Election may, at any time and from time to time, designate a beneficiary to receive the Participant's Change in Control Benefit in the event of the Participant's death.

(c) Upon the effective date of a Change in Control, the Sponsoring Employer shall create a "Rabbi Trust" (i.e., a grantor trust designed to hold funds to be used to pay benefits under a deferred compensation arrangement without such funds becoming taxable to the Participants entitled to such benefits until paid to such participants) in the form set forth on Attachment A with a major financial institution in Louisville, Kentucky selected by the

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Sponsoring Employer, to which the Sponsoring Employer shall transfer funds in an amount equal to the portion of the Change in Control Benefits elected to be deferred by all Participants making a Deferral Election.

(d) All deferred Change in Control Benefits shall be deemed invested in one or more of the investments set forth below, as selected by the deferring Participant in the Deferral Election; provided, however, that no less than 10% of the Participant's deferred Change in Control Benefit may be deemed invested in any one investment. A Participant may elect, once during each calendar quarter, to change the manner in which the Participant's Change in Control Benefit is deemed invested beginning on the first day of the following calendar quarter. The investments in which Change in Control Benefits may be deemed invested are as follows:

1. Fidelity Balanced Fund;
2. Fidelity Contrafund;
3. Harbor International Fund;
4. Provident Small Cap Fund;
5. An interest income fund selected by the Trustee;
6. A stock index fund selected by the Trustee.

Notwithstanding the foregoing, in the event an investment set forth above is no longer in existence, then the Committee shall substitute another investment having investment objectives similar to the investment which ceased to exist. The payments to be made to Participants shall be based upon the initial Change in Control Benefit and the effects of the deemed investment of the Change in Control Benefit thereafter.

(e) If a Participant who has made a Deferral Election is required to include the amount of the Change in Control Benefit in income for federal income tax purposes prior to actual receipt thereof and agrees in a written document delivered to the Internal Revenue Service to pay income tax thereon, such Participant, upon advising the trustee of the Rabbi Trust and the Sponsoring Employer of such fact (and supplying such documents as the trustee of the Rabbi Trust shall require to substantiate such facts), shall be entitled to receive the Change in Control Benefit, as adjusted in accordance with Section 4.7(d), as

soon as administratively possible.

## ARTICLE 5

### PLAN ADMINISTRATION

5.1 COMPENSATION COMMITTEE AND PLAN ADMINISTRATOR. The Compensation Committee shall be responsible for making all policy decisions which arise under the Plan. The Plan Administrator shall be responsible for administering the Plan and keeping records of supplemental benefits.

8

12

5.2 PLAN ADMINISTRATOR TO ESTABLISH RULES AND CLAIMS PROCEDURE. Subject to the limitations of the Plan, the Plan Administrator shall from time to time establish rules for the administration of the Plan. Without limiting the generality of the preceding sentence, it is specifically provided that the Plan Administrator shall set forth the procedures to be followed in presenting claims for benefits under the Plan. The Plan Administrator shall rely on the records of the Employer, as certified to it, with respect to any and all factual matters dealing with the employment of an Employee or Participant. In case of any factual dispute hereunder, the Compensation Committee shall resolve such dispute giving due weight to all evidence available to it. The Compensation Committee shall interpret the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan. All such determinations shall be final, conclusive and binding.

5.3 DECISIONS OF COMPENSATION COMMITTEE. Except as otherwise specifically provided herein, every decision and action of the Compensation Committee shall be valid if concurred in by a majority of the members then in office, which concurrence may be had without a formal meeting.

5.4 EMPLOYMENT OF COUNSEL, ETC. In discharging its duties under this Plan, the Plan Administrator and the Compensation Committee may employ such counsel, accountants and other agents as they shall deem advisable. The Sponsoring Employer shall pay the compensation of such counsel, accountants and other agents and any other expenses incurred by the Plan Administrator and the Compensation Committee in carrying out their duties under the Plan.

## ARTICLE 6

### AMENDMENT AND TERMINATION

6.1 RIGHTS GENERALLY TO MAKE AMENDMENTS. The Sponsoring Employer reserves the right at any time, by action of its Board of Directors, to modify or amend, in whole or in part, any or all of the provisions of the Plan. Provided, however, that the preceding sentence shall be inoperative upon a Change in Control. Provided further that no amendment, suspension or termination shall adversely affect the right of any Participant then employed by the Employer to receive the accrued Benefit to which such person would have been entitled under the Plan prior to its amendment, suspension or termination.

6.2 CONDITION TO AMENDMENT. In the event of an amendment which limits eligibility for participation in this Plan, any Participant who ceases to be eligible shall be entitled to receive Benefits accrued as of the date eligibility ends. Such Participants shall be entitled to payment in the manner set forth in Section 4.4.

9

## ARTICLE 7

## MISCELLANEOUS PROVISIONS

7.1 PROHIBITION AGAINST ASSIGNMENT. Neither the interest of a Participant or any other person nor the Benefit payable hereunder, is subject to the claim of creditors of Participants or their Beneficiaries, and will not be subject to attachment, garnishment or any other legal process. Neither a Participant nor the Participant's Beneficiaries may assign, sell, borrow on or otherwise encumber any of the Participant's beneficial interest in the Plan, nor shall any such benefits be in any manner liable for or subject to the deeds, contracts, liabilities, engagements or torts of any Participant or Beneficiary. All such payments and rights thereto are expressly declared to be nonassignable and non-transferrable, and in the event of any attempt of assignment or transfer, the Employer shall have no further liability hereunder.

7.2 PLAN VOLUNTARY ON PART OF EMPLOYERS. Although it is the intention of each Employer that this Plan shall be continued, this Plan is entirely voluntary on the part of each Employer, and the continuance of the Plan is not assumed as a contractual obligation of an Employer.

7.3 PLAN NOT CONTRACT OF EMPLOYMENT. This Plan shall not be deemed to constitute a contract between the Employer and any Participant or to be a consideration or an inducement for the employment of any Participant or Employee. Nothing contained in this Plan shall be deemed to give any Participant or Employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge any Participant or Employee at any time regardless of the effect which such discharge shall have upon such individual as a Participant in the Plan.

## 7.4 CONSTRUCTION.

(a) This Plan shall be construed and enforced according to the laws of the Commonwealth of Kentucky, and all provisions hereunder shall be administered according to the laws thereof. It is intended that this Plan be exempt from Title I of the Employee Retirement Income Security Act of 1974, as amended, under Section 4(b)(5) thereof, as an excess benefit plan and as a plan which is unfunded and maintained by the Employer for the purpose of providing deferred compensation for a select group of highly compensated employees, and any ambiguities in construction shall be resolved in favor of interpretation which will effectuate such intentions.

(b) Any words herein used in the singular shall be read and construed as though used in the plural in all cases where they would so apply.

(c) Titles of articles and headings to sections are inserted for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles and headings, shall control.

7.5 PAYMENT TO MINORS, ETC. In making any payment to or for the benefit of any minor or incompetent Beneficiary, the Plan Administrator, in its sole, absolute and uncontrolled discretion, may, but need not, make such payment to a legal or natural guardian or other relative of such minor or court appointed committee of such incompetent, or to any adult with whom such minor or incompetent temporarily or permanently resides, and any such guardian,

committee, relative or other person shall have full authority and discretion to expend such distribution for the use and benefit of such minor or incompetent, and the receipt by such guardian, committee, relative or other person shall be a complete discharge to the Employer, without any responsibility on its part or on the part of the Plan Administrator to see to the application thereof.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this instrument to be executed and attested thereto by its duly authorized officers this \_\_\_\_\_ day of \_\_\_\_\_, 1995.

HUMANA INC.

ATTEST:

Joan O. Kroger  
-----  
Secretary

By: Wayne T. Smith  
-----  
President & Chief Operating Officer

HUMANA SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

AMENDED AND RESTATED AS OF

JANUARY 1, 1995

TABLE OF CONTENTS

	Page
	----
ARTICLE 1	
PURPOSE AND APPLICABILITY OF PLAN	
1.1 Purpose of Plan . . . . .	1
1.2 Applicability of Plan . . . . .	2
ARTICLE 2	
DEFINITIONS	
2.1 Beneficiary and Secondary Beneficiary . . . . .	2
2.2 Board of Directors . . . . .	2
2.3 Change in Control . . . . .	2
2.4 Code . . . . .	4
2.5 Compensation Committee . . . . .	4
2.6 Effective Date . . . . .	4
2.7 Employee . . . . .	4
2.8 Employer . . . . .	4
2.9 ESOP . . . . .	4
2.10 Normal Retirement Date . . . . .	4
2.11 Participant . . . . .	4
2.12 Participation Date . . . . .	4
2.13 Plan Year . . . . .	5
2.14 Qualified Plans . . . . .	5
2.15 Related Employer . . . . .	5
2.16 Retirement Account . . . . .	5
2.17 Retirement and Savings Plan . . . . .	5
2.18 Retirement Plan . . . . .	5
2.19 Sponsoring Employer . . . . .	5
2.20 Supplemental Benefit . . . . .	5
2.21 Supplemental Plan or Plan . . . . .	5
2.22 Vested Pension Account . . . . .	5

TABLE OF CONTENTS

Page  
----

ARTICLE 3

PARTICIPATION IN THE PLAN

3.1 Eligible Employees . . . . . 5
3.2 Provisions of Plan Binding on Participants . . . . . 5
3.3 Notification of Participation . . . . . 6
3.4 Termination of Benefit Accrual . . . . . 6

ARTICLE 4

SUPPLEMENTAL BENEFITS

4.1 Amount of Supplemental Benefits . . . . . 6
4.2 Defined Contribution Benefit . . . . . 6
4.3 Pension Benefit . . . . . 6
4.4 Adjustments to Benefits . . . . . 6
4.5 Eligibility for Payment of Supplemental

Benefit . . . . . 7

4.6 Form of Payment of Supplemental Benefit . . . . . 7
4.7 Source of Supplemental Benefit . . . . . 7
4.8 Distributions to Beneficiaries . . . . . 8
4.9 Investment of Deferred Distribution . . . . . 8
4.10 Acceleration Due to Change in Control . . . . . 8

ARTICLE 5

PLAN ADMINISTRATION

5.1 Compensation Committee . . . . . 10
5.2 Compensation Committee to Establish Rules and Claims Procedure . . . . . 10
5.3 Organization and Decisions of Compensation Committee . . . . . 10
5.4 Determination of Supplemental Benefits . . . . . 11
5.5 Employment of Counsel, Etc. . . . . 11
5.6 Payment of Expenses . . . . . 11

4

TABLE OF CONTENTS

Page
----

ARTICLE 6

AMENDMENT AND TERMINATION

6.1 Rights Generally to Make Amendments . . . . . 11
6.2 Conditions to Amendment, Suspension or Termination . . . . . 11

ARTICLE 7

CHANGE IN EMPLOYMENT

7.1 Participant Transfer from Employer to Employer . . . . . 12
7.2 Participant Transfer from Employer to Related Employer . . . . . 12

ARTICLE 8

MISCELLANEOUS PROVISIONS

8.1 Prohibition Against Assignment . . . . . 12
8.2 Plan Voluntary on Part of Employers . . . . . 12
8.3 Plan Not Contract of Employment . . . . . 12
8.4 Construction . . . . . 13
8.5 Payment to Minors, Etc. . . . . 13

5



HUMANA SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
AMENDED AND RESTATED AS OF  
JANUARY 1, 1995

WHEREAS, HUMANA INC. ("Humana"), a Delaware corporation with its principal place of business in Louisville, Kentucky ("Sponsoring Employer"), has adopted the Humana Retirement and Savings Plan ("Retirement and Savings Plan"), which is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code"), and

WHEREAS, certain employees of the Sponsoring Employer and its subsidiaries are eligible for allocations of contributions to Retirement Accounts under the Retirement and Savings Plan and were eligible for allocations of contributions under the (now terminated) Humana Employee Stock Ownership Plan ("ESOP"), and the Humana Inc. Retirement Plan (collectively, "Qualified Plans"), and

WHEREAS, pursuant to the terms of the Qualified Plans, the benefits of certain employees of the Sponsoring Employer and its subsidiaries have been and will be reduced because of the limitation on compensation of Section 401(a)(17) of the Code and the limitation on allocations of contributions of Section 415 of the Code, and

WHEREAS, the Board of Directors of the Sponsoring Employer ("Board of Directors") desires to continue to provide a supplemental benefit to such persons in the amount of the reduction of their benefits under the Qualified Plans, and

WHEREAS, on September 1, 1982, the Sponsoring Employer adopted the Humana Supplemental Executive Retirement Plan ("Plan"), and

WHEREAS, the Board of Directors desires to amend and restate the Plan in light of the foregoing changes in the Qualified Plans and laws, and has authorized and approved the amendment and restatement of the Humana Supplemental Executive Retirement Plan provided for herein.

NOW, THEREFORE, the Sponsoring Employer, pursuant to the right to amend contained in Article 6 of the Plan, hereby approves and adopts this amendment and restatement, effective January 1, 1995, which shall read as follows:

ARTICLE 1

PURPOSE AND APPLICABILITY OF PLAN

1.1 PURPOSE OF PLAN. The purpose of the Plan shall be to provide supplemental benefits to Participants whose benefits under the Qualified Plans are or will be reduced because of the compensation limitation of Section 401(a)(17) of the Code and the limitation on allocations

6

of contributions of Section 415 of the Code, upon the terms and conditions, and subject to the limitations, contained herein.

1.2 APPLICABILITY OF PLAN. The provisions of the Plan shall apply only to persons employed by an Employer on and after the Effective Date.

ARTICLE 2

DEFINITIONS

As used herein, the following words and phrases shall have the meanings specified below, unless a different meaning is plainly required by the context.

2.1 BENEFICIARY AND SECONDARY BENEFICIARY. The person or persons (or a trust) as set forth under the Retirement and Savings Plan.

2.2 BOARD OF DIRECTORS. The Board of Directors of the Sponsoring Employer.

2.3 CHANGE IN CONTROL. Change in Control shall mean any of the following events:

(A) An acquisition (other than directly from the Sponsoring Employer) of any voting securities of the Sponsoring Employer ("Voting Securities") by any "Person" (as the term Person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended ("1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of the combined voting power of the Sponsoring Employer's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Sponsoring Employer or (B) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Sponsoring Employer ("Subsidiary"), (ii) the Sponsoring Employer or any Subsidiary, or (iii) any Person in connection with a "Non-Control Transaction" (as hereinafter defined).

(B) The individuals who, as of the date of this Plan, are members of the Board of Directors ("Incumbent Board"), cease for any reason to constitute at least two-thirds of the Board of Directors; provided, however, that if the election, or nomination for election by the Sponsoring Employer's stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; provided, further, however, that no individual

-2-

7

shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board ("Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(C) Approval by stockholders of the Sponsoring Employer of:

(i) A merger, consolidation or reorganization involving the Sponsoring Employer, unless,

(a) The stockholders of the Sponsoring Employer, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least 75% of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation or reorganization ("Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization;

(b) The individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation;

(c) No person (other than the Sponsoring Employer, any subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Sponsoring Employer, the Surviving Corporation or any subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of 20% or more of the then outstanding Voting Securities has Beneficial Ownership of 20% or more of the combined voting power of the Surviving Corporation's then outstanding Voting Securities; and

(d) A transaction described in clauses (a) through (c) shall herein be referred to as a "Non-Control Transaction;"

(ii) A complete liquidation or dissolution of the Sponsoring Employer; or

(iii) An agreement for the sale or other disposition of all or substantially all of the assets of the Sponsoring Employer to any Person (other than a transfer to a Subsidiary).

-3-

8

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person ("Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Sponsoring Employer which, by reducing the number of Voting Securities outstanding, increases the proportional number of Shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Sponsoring Employer, and after such share acquisition by the Sponsoring Employer, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

2.4 CODE. The Internal Revenue Code of 1986, as it has been and may be amended from time to time. Reference to any section of the Code shall include any provision successor thereto.

2.5 COMPENSATION COMMITTEE. The Compensation Committee of the Board of Directors of the Sponsoring Employer.

2.6 EFFECTIVE DATE. The effective date of this Plan, which shall be September 1, 1982.

2.7 EMPLOYEE. Any person employed by an Employer.

2.8 EMPLOYER. The Sponsoring Employer and each corporation which is a member of the "affiliated group" (as defined in Section 1504(a) of the Code) with the Sponsoring Employer. When used with reference to an Employee or Participant, the term shall mean the Employer employing the Employee or Participant.

2.9 ESOP. The Humana Employee Stock Ownership Plan, which terminated effective June 15, 1989.

2.10 NORMAL RETIREMENT DATE. The first day of the month coincident with or immediately following the Participant's 65th birthday.

2.11 PARTICIPANT. An Employee who has met the requirements of Article 3 for participation hereunder. Where the context so permits or requires, the term shall also include a person who was a Participant prior to the termination of

the Participant's employment with an Employer and who is entitled to a Supplemental Benefit after such person's employment terminates.

2.12 PARTICIPATION DATE. The later of the Effective Date or the date the Participant becomes eligible for a Supplemental Benefit.

-4-

9

2.13 PLAN YEAR. The twelve consecutive month period commencing on the first day of January and ending on the last day of the immediately following December.

2.14 QUALIFIED PLANS. The Retirement Plan, the ESOP and the Retirement Account under the Retirement and Savings Plan.

2.15 RELATED EMPLOYER. Any subsidiary or affiliate of the Sponsoring Employer, which is designated by the Board of Directors to be a Related Employer.

2.16 RETIREMENT ACCOUNT. The account established by that name on behalf of a Participant in the Retirement and Savings Plan.

2.17 RETIREMENT AND SAVINGS PLAN. The Humana Retirement and Savings Plan, as it may be amended from time to time.

2.18 RETIREMENT PLAN. The Humana Inc. Retirement Plan, which terminated effective December 31, 1982.

2.19 SPONSORING EMPLOYER. Humana Inc., a Delaware corporation.

2.20 SUPPLEMENTAL BENEFIT. The benefit described in Article 4.

2.21 SUPPLEMENTAL PLAN OR PLAN. The Humana Supplemental Executive Retirement Plan provided for herein, as it may be amended from time to time.

2.22 VESTED PENSION ACCOUNT. The account established by that name on behalf of a Participant in the Retirement and Savings Plan who was a Participant in the Retirement Plan.

### ARTICLE 3

#### PARTICIPATION IN THE PLAN

3.1 ELIGIBLE EMPLOYEES. Each Employee who is a participant in a Qualified Plan after August 31, 1982 shall participate in this Plan to the extent of the benefits stated herein; provided, however, that if the Participant is employed partially by the Sponsoring Employer and partially by another Employer who has adopted the Qualified Plans, such person shall not fully participate herein unless such person's Employer has agreed to bear its proportionate share of the cost of this Plan with respect to its Employees.

3.2 PROVISIONS OF PLAN BINDING ON PARTICIPANTS. Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of this Plan, including all amendments to the Plan.

-5-

10

3.3 NOTIFICATION OF PARTICIPATION. Each Employee shall be notified when the Employee becomes a Participant.

3.4 TERMINATION OF BENEFIT ACCRUAL. An Employee's accrual of benefits under this Plan shall cease upon the Employee's termination of employment.

#### ARTICLE 4

##### SUPPLEMENTAL BENEFITS

4.1 AMOUNT OF SUPPLEMENTAL BENEFITS. Each Participant shall receive a Supplemental Benefit under this Supplemental Plan consisting of the following:

(a) A defined contribution benefit as set forth in Section 4.2; and

(b) If the Participant participated in the Retirement Plan, a pension benefit as set forth in Section 4.3.

4.2 DEFINED CONTRIBUTION BENEFIT. The defined contribution benefit shall equal the aggregate of the benefit accrued by the Participant during each Plan Year of participation as such amounts are further adjusted under Section 4.4. The Participant's defined contribution benefit accrued in a Plan Year shall equal the difference, if any, between the actual contribution by the Employer to the Retirement Account or other Qualified Plan (other than the Retirement Plan) on behalf of the Participant for such Plan Year and the amount of the contribution which would otherwise have been made by the Employer on behalf of such Participant for such Plan Year but for the compensation limitation of Section 401(a)(17) of the Code and the annual additions limitations imposed by Section 415 of the Code.

4.3 PENSION BENEFIT. As further adjusted under Section 4.4, the vested pension benefit shall be an amount equal to the difference, if any, between the value of the Participant's Vested Pension Account at the time it was established and the value such Account would have been had the Participant's benefit under the Retirement Plan been determined without regard to the limitation established in Section 11.12(a)(iii) of the Retirement Plan.

4.4 ADJUSTMENTS TO BENEFITS. The amount of the benefit set forth in Sections 4.2 and 4.3 shall be further adjusted for gains (or losses) as if such amounts were invested in the following investment funds maintained for the Participant's Retirement Account, in accordance with the Participant's directions:

1. Interest Income Fund
2. Fidelity Balanced Fund
3. Stock Index Fund

-6-

11

4. Harbor International Fund
5. Fidelity Contrafund
6. Provident Small Cap Fund
7. Humana Common Stock Fund

Notwithstanding the foregoing, in the event an investment set forth above is no longer available, the Committee shall substitute another investment, and the Participant shall have the opportunity to change investment directions.

In the event the Participant provides no investment direction, the Participant's benefit shall be deemed invested in accordance with the same directions in effect with respect to the investment of the Participant's

Retirement Account. The adjustments of earnings (or losses) shall be made in accordance with the same procedures and in the same manner as provided for the Participant's Retirement Account, except as otherwise modified herein. The amount of the Participant's benefit on account of retirement, death or other termination of employment shall be determined as if such amounts were actually invested pursuant to and being paid from the Participant's Retirement Account and Vested Pension Account.

4.5 ELIGIBILITY FOR PAYMENT OF SUPPLEMENTAL BENEFIT. The payment of the Participant's Supplemental Benefit shall commence no later than sixty (60) days following the Participant's termination of employment for any reason, whether voluntary or involuntary, or by reason of death, total and permanent disability or retirement. The form of the payment of the Participant's Supplemental Benefit shall be governed by Section 4.6 notwithstanding the form of distribution of the Participant's benefits from the Retirement Account. All payments shall be made in cash.

4.6 FORM OF PAYMENT OF SUPPLEMENTAL BENEFIT. A Participant, Beneficiary or a Secondary Beneficiary may request a manner of payment of the Supplemental Benefits under the Plan as provided hereinafter. The request by the Participant, the Beneficiary or the Secondary Beneficiary shall be in writing and shall be filed with the Compensation Committee at least thirty (30) days before the payment is to be made or commenced. The Compensation Committee may approve such request or may disapprove such request and substitute another alternative form. The alternative forms of distribution are as follows:

- (a) A lump sum distribution in cash;
- (b) Periodic substantially equal installments (either monthly, quarterly or annually) for a period not to exceed 20 years; or
- (c) An annuity in any form permitted from the Retirement Account.

4.7 SOURCE OF SUPPLEMENTAL BENEFIT. The Supplemental Benefit shall not be funded but shall constitute liabilities of the Sponsoring Employer, payable when due from the general

-7-

12

assets of the Sponsoring Employer. The Sponsoring Employer shall pay all costs, charges and expenses related thereto. No Participant or other person shall have any right or claim to the payment of a Supplemental Benefit which in any manner whatsoever is superior to or different from the right or claim of a general and unsecured creditor of the Sponsoring Employer.

4.8 DISTRIBUTIONS TO BENEFICIARIES. If at the time of a Participant's death a distribution is still outstanding, the remaining benefits shall be paid to the Participant's Beneficiary. If at the time of a Participant's death while a distribution is still outstanding and the Participant's Beneficiary does not survive the Participant, the remaining benefits shall be paid to the Participant's Secondary Beneficiary. If a deceased Participant is not survived by either a Beneficiary or Secondary Beneficiary (or if no Beneficiary was effectively named), the benefits shall be paid in a single sum to the estate of the Participant and the Compensation Committee shall be fully protected in paying such benefits to such deceased Participant's personal representative, irrespective of whether payments are actually made to a person or persons who in fact are not the personal representative of the deceased Participant.

4.9 INVESTMENT OF DEFERRED DISTRIBUTION. The Supplemental Benefit of a Participant or Beneficiary which will be distributed in installments, or which will not be distributed immediately, after the amount of the benefit is determined shall continue to be deemed invested in the Participant's Retirement

Account as described in Section 4.4. The Participant or Beneficiary may direct the investment of the deferred distribution, provided such directions shall be filed with the Compensation Committee in accordance with the same rules and procedures and subject to the same conditions as then in effect with respect to the investment of the Participant's Retirement Account. Such investment directions shall remain in effect until amended or superseded. The adjustment of the Supplemental Benefit under Section 4.4 shall continue:

(a) If distribution is to be made under Section 4.6(a) or (b), through the last valuation date, as defined in the Retirement and Savings Plan with respect to the Participant's Retirement Account, immediately preceding the lump sum distribution or the last periodic installment, whichever is applicable; or

(b) If the benefit is to be distributed in the form of annuity under Section 4.6(c), through the last valuation date, as defined in the Retirement and Savings Plan with respect to the Participant's Retirement Account, immediately preceding the date such annuity payments are to commence.

#### 4.10 ACCELERATION DUE TO CHANGE IN CONTROL.

(a) In the event of a Change in Control of the Sponsoring Employer, the Supplemental Benefit of any Participant shall, except as otherwise provided in Section 4.10(b), be distributed as soon as administratively feasible in a lump sum in cash in accordance with Section 4.6(a). This shall apply to active, retired or disabled Participants. In the case of an

-8-

13

active Participant, any benefit to which the Participant is entitled under this Section 4.10(a) as a result of a Change in Control ("Change in Control Benefit") shall reduce the benefit to which the Participant would otherwise be entitled under the Plan.

(b) Notwithstanding the provisions of Section 4.10(a), if at least 30 days prior to a Change in Control, a Participant elects, in such manner as the Committee shall determine, to defer the payment of all or any portion of the Change in Control Benefit which the Participant would be entitled to receive upon a Change in Control ("Deferral Election"), then the single sum payment referred to in Section 4.10(a) shall not be made at the time or times referred to in Section 4.10(a) and such Change in Control Benefit shall instead be made at the time provided for in the Deferral Election. Payment of the Change in Control Benefit must commence no later than the earlier to occur of (i) the date or age specified by the Participant in the Deferral Election, or (ii) the date on which the Participant terminates employment with the Sponsoring Employer for any reason other than voluntary retirement, death or disability, or (iii) a subsequent (second) Change in Control. A Participant deferring any portion of a Change in Control Benefit may further provide for the payment of the Change in Control Benefit in installments over a period not to exceed 10 years. A Participant making a Deferral Election may, at any time and from time to time, designate a beneficiary to receive the Participant's Change in Control Benefit in the event of the Participant's death.

(c) Upon the effective date of a Change in Control, the Sponsoring Employer shall create a "Rabbi Trust" (i.e., a grantor trust designed to hold funds to be used to pay benefits under a deferred compensation arrangement without such funds becoming taxable to the participants entitled to such benefits until paid to such participants) in the form set forth on Attachment A with a major financial institution in Louisville, Kentucky selected by the Sponsoring Employer to which the Sponsoring Employer shall transfer funds in an amount equal to the portion of the Change in Control Benefits elected to be deferred by all Participants making a Deferral Election.

(d) All deferred Change in Control Benefits shall be deemed invested in one or more of the investments set forth below, as selected by the deferring Participant in the Deferral Election; provided, however, that no less than 10% of the Participant's deferred Change in Control Benefit may be deemed invested in any one investment. A Participant may elect, once during each calendar quarter, to change the manner in which the Participant's Change in Control Benefit is deemed invested beginning on the first day of the following calendar quarter. The investments in which Change in Control Benefits may be deemed invested are as follows:

1. Fidelity Balanced Fund;
2. Fidelity Contrafund;
3. Harbor International Fund;
4. Provident Small Cap Fund;
5. An interest income fund selected by the Trustee;
6. A stock index fund selected by the Trustee.

-9-

14

Notwithstanding the foregoing, in the event an investment set forth above is no longer in existence, then the Committee shall substitute another investment having investment objectives similar to the investment which ceased to exist. The payments to be made to Participants shall be based upon the initial Change in Control Benefit and the effects of the deemed investment of the Change in Control Benefit thereafter.

(e) If a Participant who has made a Deferral Election is required to include the amount of the Change in Control Benefit in income for federal income tax purposes prior to actual receipt thereof and agrees in a written document delivered to the Internal Revenue Service to pay income tax thereon, such Participant, upon advising the trustee of the Rabbi Trust and the Sponsoring Employer of such fact (and supplying such documents as the trustee of the Rabbi Trust shall require to substantiate such facts), shall be entitled to receive the Change in Control Benefit, as adjusted in accordance with Section 4.7(d), as soon as administratively possible.

## ARTICLE 5

### PLAN ADMINISTRATION

5.1 COMPENSATION COMMITTEE. The Compensation Committee shall be responsible for making all policy decisions which arise under the Plan. The Compensation Committee shall be responsible for administering the Plan and keeping records of Supplemental Benefits. All members of the Compensation Committee shall serve until their resignation or dismissal and vacancies shall be filled in the same manner as the original appointments.

5.2 COMPENSATION COMMITTEE TO ESTABLISH RULES AND CLAIMS PROCEDURE. Subject to the limitations of the Plan, the Compensation Committee shall from time to time establish rules for the administration of the Plan. Without limiting the generality of the preceding sentence, it is specifically provided that the Compensation Committee shall set forth the procedures to be followed in presenting claims for benefits under the Plan. The Compensation Committee shall rely on the records of the Employer, as certified to it, with respect to any and all factual matters dealing with the employment of an Employee or Participant. In case of any factual dispute hereunder, the Compensation Committee shall resolve such dispute giving due weight to all evidence available to it. The Compensation Committee shall interpret the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan. All such determinations shall be final, conclusive and binding.



5.3 ORGANIZATION AND DECISIONS OF COMPENSATION COMMITTEE. Except as otherwise specifically provided herein, every decision and action of the Compensation Committee shall be valid if concurred in by a majority of the members then in office, which concurrence may be had without a formal meeting. The Compensation Committee shall select a Secretary, who may

-10-

15

or may not be a member of the Committee, and any other officers deemed necessary. The Compensation Committee shall keep a permanent record of its meetings and actions.

5.4 DETERMINATION OF SUPPLEMENTAL BENEFITS. The Compensation Committee shall be responsible for the determination of Supplemental Benefits.

5.5 EMPLOYMENT OF COUNSEL, ETC. The Compensation Committee may employ such counsel, accountants and other agents as it shall deem advisable. The Sponsoring Employer shall pay the compensation of such counsel, accountants and other agents and any other expenses incurred by the Compensation Committee in the administration of the Plan.

5.6 PAYMENT OF EXPENSES. The reasonable costs and expenses incurred by the Compensation Committee in the performance of its duties hereunder, excluding compensation for services, but including, without limitation, reasonable fees for legal, accounting and other services rendered, shall be paid by the Sponsoring Employer.

## ARTICLE 6

### AMENDMENT AND TERMINATION

6.1 RIGHTS GENERALLY TO MAKE AMENDMENTS. The Sponsoring Employer reserves the right at any time, by action of its Board of Directors, to modify or amend, in whole or in part, any or all of the provisions of the Plan. Provided, however, that this provision shall be inoperative upon a Change in Control.

6.2 CONDITIONS TO AMENDMENTS, SUSPENSION OR TERMINATION. Notwithstanding the provisions of Section 6.1, no amendment, suspension or termination shall adversely affect:

(a) The Supplemental Benefit of any Participant, or the Beneficiary or Secondary Beneficiary of any Participant who has retired prior thereto; or

(b) The right of any Participant then employed by the Employer to receive upon retirement or other termination of employment, or the Participant's Beneficiary or Secondary Beneficiary to receive upon the Participant's death, the accrued Supplemental Benefit to which such person would have been entitled under the Supplemental Plan prior to its amendment, suspension or termination.

-11-

16

## ARTICLE 7

### CHANGE IN EMPLOYMENT

7.1 PARTICIPANT TRANSFER FROM EMPLOYER TO EMPLOYER. A Participant who

transfers employment from one Employer to another Employer shall not be considered as terminating employment with an Employer and shall continue to be a Participant in this Plan without interruption.

7.2 PARTICIPANT TRANSFER FROM EMPLOYER TO RELATED EMPLOYER. A Participant who transfers employment to a Related Employer shall not be considered as terminating employment with an Employer and shall remain an active Participant in the Plan, except that no further benefits shall be accrued on such Participant's behalf under Section 4.2. Although no further benefits may be accrued, the Participant's benefit shall continue to be adjusted in accordance with Section 4.4. For purposes of this Section 7.2, a Related Employer shall mean a corporation which would qualify as an Employer but for the fact that it has not adopted the Supplemental Plan.

## ARTICLE 8

### MISCELLANEOUS PROVISIONS

8.1 PROHIBITION AGAINST ASSIGNMENT. Neither the interest of a Participant or any other person nor the Supplemental Benefit payable hereunder, is subject to the claim of creditors of Participants or their Beneficiaries, and will not be subject to attachment, garnishment or any other legal process. Neither a Participant nor the Participant's Beneficiaries may assign, sell, borrow on or otherwise encumber any of the Participant's beneficial interest in the Plan, nor shall any such benefits be in any manner liable for or subject to the deeds, contracts, liabilities, engagements or torts of any Participant or Beneficiary. All such payments and rights thereto are expressly declared to be non-assignable and non-transferable, and in the event of any attempt of assignment or transfer, the Employer shall have no further liability hereunder.

8.2 PLAN VOLUNTARY ON PART OF EMPLOYERS. Although it is the intention of each Employer that this Plan shall be continued, this Plan is entirely voluntary on the part of each Employer, and the continuance of the Plan is not assumed as a contractual obligation of an Employer other than as may be provided by Article 6.

8.3 PLAN NOT CONTRACT OF EMPLOYMENT. This Plan shall not be deemed to constitute a contract between the Employer and any Participant or to be a consideration or an inducement for the employment of any Participant or Employee. Nothing contained in this Plan shall be deemed to give any Participant or Employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge any Participant or

-12-

17

Employee at any time regardless of the effect which such discharge shall have upon such individual as a Participant in the Plan.

### 8.4 CONSTRUCTION.

(a) This Plan shall be construed and enforced according to the laws of the Commonwealth of Kentucky, and all provisions hereunder shall be administered according to the laws thereof. It is intended that this Supplemental Plan be exempt from Title I of the Employee Retirement Income Security Act of 1974, as amended, under Section 4(b)(5) thereof, as an excess benefit plan and as a plan which is unfunded and maintained by the Employer for the purpose of providing deferred compensation for a select group of highly compensated employees, and any ambiguities in construction shall be resolved in favor of interpretation which will effectuate such intentions.

(b) Any words herein used in the singular shall be read and construed as though used in the plural in all cases where they would so apply.

(c) Titles of articles and headings to sections are inserted for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles and headings, shall control.

8.5 PAYMENT TO MINORS, ETC. In making any payment to or for the benefit of any minor or incompetent Beneficiary, the Compensation Committee, in its sole, absolute and uncontrolled discretion, may, but need not, make such payment to a legal or natural guardian or other relative of such minor or court appointed committee of such incompetent, or to any adult with whom such minor or incompetent temporarily or permanently resides, and any such guardian, committee, relative or other person shall have full authority and discretion to expend such distribution for the use and benefit of such minor or incompetent, and the receipt by such guardian, committee, relative or other person shall be a complete discharge to the Employer, without any responsibility on its part or on the part of the Compensation Committee to see to the application thereof.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this instrument to be executed and attested thereto by its duly authorized officers this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

HUMANA INC.

Attest:

By: Wayne T. Smith

Joan O. Kroger

\_\_\_\_\_  
President and Chief Operating Officer

\_\_\_\_\_  
Secretary

## AGREEMENT AND AMENDMENT

AGREEMENT AND AMENDMENT, dated as of October 27, 1994, among HUMANA INC., a Delaware corporation (the "Company"), the several banks and other financial institutions from time to time parties hereto (the "Banks") and CHEMICAL BANK, a New York banking corporation, as agent for the Banks hereunder (in such capacity, the "Agent") and as CAF Loan agent (in such capacity, the "CAF Loan Agent").

## W I T N E S S E T H :

WHEREAS, the Company, the Agent, the CAF Loan Agent and certain banks and other financial institutions (the "Original Banks") are parties to the Credit Agreement, dated as of January 12, 1994 (as amended, supplemented or otherwise modified to the date hereof, the "Original Credit Agreement"), pursuant to which the Original Banks committed to make loans to the Company for a period of three years;

WHEREAS, effective as of the Closing Date (as defined below), the Company intends to terminate the Commitments (as defined in the Original Credit Agreement) of the Original Banks under the Original Credit Agreement pursuant to subsection 2.4(a) thereof;

WHEREAS, the Company has requested that the Agent, the CAF Loan Agent and the Banks enter into a new agreement adopting and incorporating by reference all of the terms and provisions of the Original Credit Agreement with certain amendments and modifications thereto; and

WHEREAS, the Agent, the CAF Loan Agent and the Banks are willing to so enter into a new agreement, but only upon the terms and subject to the conditions set forth below;

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the parties hereto, the parties hereto hereby agree as follows:

SECTION 1. Adoption and Incorporation of Original Credit Agreement. Subject to the amendments and modifications set forth in Sections 3 through 13 of this Agreement, all of the terms and provisions of the Original Credit Agreement are hereby adopted and incorporated by reference into this Agreement, with the same force and effect as if fully set forth herein. This Agreement shall not constitute an amendment or waiver of any provision of the Original Credit Agreement not expressly referred to herein and shall not be construed as an amendment, waiver or consent to any action on the part of the Company that would

require an amendment, waiver or consent of the Agent or the Banks except as expressly stated herein. Except as expressly amended hereby, the provisions of the Original Credit Agreement as adopted and incorporated by reference into this Agreement are and shall remain in full force and effect.

SECTION 2. Definitions. As used in this Agreement, terms defined herein are used as so defined and, unless otherwise defined herein, terms defined in the Original Credit Agreement are used herein as therein defined.

SECTION 3. Defined Terms. For purposes of this Agreement, subsection

1.1 of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended as follows:

(a) by deleting the defined terms "Level I Utilization Period", "Level II Utilization Period" and "Level III Utilization Period" in their entirety.

(b) by deleting the defined terms "Agreement", "Applicable Margin", "Closing Date", "L/C Sublimit" and "Termination Date" in their entirety and substituting in lieu thereof the following:

"`Agreement': this Credit Agreement as adopted and incorporated by reference into the Agreement and Amendment, as amended by the Agreement and Amendment and as further amended, supplemented or otherwise modified from time to time.";

"`Applicable Margin': for each Type of Revolving Credit Loan, for any fiscal quarter, the applicable rate per annum set forth in Schedule 2 hereto opposite the Consolidated Capitalization Ratio then in effect. Such Applicable Margin shall be in effect for the period beginning the first Business Day following the date to which the Consolidated Capitalization Ratio Certificate is applicable."

"`Closing Date': the date on which all of the conditions precedent for the Closing Date set forth in Section 14 of the Agreement and Amendment shall have been fulfilled; provided, however, that for purposes of Section 5 of the Original Credit Agreement, the term "Closing Date" shall mean the Original Closing Date.";

"`L/C Sublimit': \$100,000,000."; and

"`Termination Date': the date one day before the fifth anniversary of the Closing Date (or, if such date is not a Business Day, the next succeeding Business Day), or such other Business Day to which the Termination Date may be changed pursuant to subsection 2.4 of the Original Credit

3

3

Agreement as adopted and incorporated by reference into the Agreement and Amendment."

(c) by inserting in said subsection 1.1 of the Original Credit Agreement in the appropriate alphabetical order the following defined terms:

"`Agreement and Amendment': the Agreement and Amendment, dated as of October 27, 1994, among the Company, the Banks, the Agent and the CAF Loan Agent.";

"`Average Quarterly Commitment': as defined in subsection 2.3(a) hereto.";

"`Banks': the several banks and other financial institutions (which may include certain Original Banks) from time to time parties to the Agreement and Amendment.";

"`Consolidated Capitalization Ratio': as at the end of any fiscal quarter, the ratio of (i) Consolidated Total Debt to (ii) the sum of (A) Consolidated Total Debt and (B) Consolidated Net Worth, in each case at such date.";

"`Consolidated Capitalization Ratio Certificate': as defined in subsection 6.4(b) hereto.";

"`Original Banks': as defined in the recitals to the Agreement and Amendment.";

"`Original Closing Date': January 12, 1994."; and

"`Original Credit Agreement': as defined in the recitals to the Agreement and Amendment.".

SECTION 4. Fees.

For purposes of this Agreement, subsection 2.3(a) of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

"(a) The Company agrees to pay to the Agent, for the account of each Bank, on the last day of each fiscal quarter, a facility fee in respect of the average daily amount of the Commitment of such Bank during such fiscal quarter (such amount, the "Average Quarterly Commitment"). Such fee shall be computed at the rate per annum set forth in the table below opposite the Consolidated Capitalization Ratio then in effect (as determined in accordance with the definition of Applicable Margin).

4

4

Consolidated Capitalization Ratio -----	Facility Fee (Rate Per Annum) -----
less than .20	.1250%
at least .20 but less than .30	.1750%
at least .30 but less than .40	.2250%
at least .40	.3125%."

SECTION 5. Extension of Commitments. For purposes of this Agreement, subsection 2.4(b) of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting the word "fifth" in the ninth line thereof and substituting in lieu thereof the word "seventh".

SECTION 6. Letters of Credit. For purposes of this Agreement, subsection 3.3(a) of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

"(a) The Company shall pay to the Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission with respect to each Letter of Credit, computed at the rate per annum set forth in the table below opposite the Consolidated Capitalization Ratio then in effect (as determined in accordance with the definition of Applicable Margin), of which .125% per annum shall be payable to the Issuing Bank and the balance shall be payable to the L/C Participants to be shared ratably among them in accordance with their respective Commitment Percentages. Such fee shall be payable on each L/C Fee Payment Date and shall be nonrefundable.".

Consolidated Capitalization Ratio -----	L/C Commission (Rate per Annum) -----
---	---

less than .20	.3750%
at least .20 but less than .30	.4500%
at least .30 but less than .40	.5000%
at least .40	.5625%."

SECTION 7. Litigation. For purposes of this Agreement, subsection 4.3 of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

5

5

"4.3 Litigation. Except as disclosed in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1993 and the Company's Quarterly Reports on Form 10-Q for its fiscal quarters ended March 31, 1994 and June 30, 1994 filed with the Securities and Exchange Commission and previously distributed to the Banks, there is no litigation, at law or in equity, or any proceeding before any federal, state, provincial or municipal board or other governmental or administrative agency, including without limitation, HMO Regulators and Insurance Regulators, pending or to the knowledge of the Company threatened which, after giving effect to any applicable insurance, may involve any material risk of a Material Adverse Effect or which seeks to enjoin the consummation of any of the transactions contemplated by this Agreement or any other Loan Document, and no judgment, decree, or order of any federal, state, provincial or municipal court, board or other governmental or administrative agency, including without limitation, HMO Regulators and Insurance Regulators, has been issued against the Company or any Subsidiary which has, or may involve, a material risk of a Material Adverse Effect. The Company does not believe that the final resolution of the matters disclosed in its Annual Report on Form 10-K for its fiscal year ended December 31, 1993 and the Company's Quarterly Reports on Form 10-Q for its fiscal quarters ended March 31, 1994 and June 30, 1994 filed with the Securities and Exchange Commission and previously distributed to the Banks, will have a Material Adverse Effect."

SECTION 8. Financial Condition. For purposes of this Agreement, subsection 4.6 of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

"4.6 Financial Condition. The Company has furnished to the Agent and each Bank copies of the following:

(a) The Annual Report of the Company on Form 10-K for the fiscal year ended December 31, 1993; and

(b) the Quarterly Reports of the Company on Form 10-Q for each of the fiscal quarters ended March 31, 1994 and June 30, 1994."

The financial statements included therein, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the

6

6

periods involved (except as disclosed therein). As of the date of such financial statements, neither the Company nor any of its Subsidiaries had any known contingent liabilities of any significant amount which in accordance with GAAP are required to be referred to in said financial

statements or in the notes thereto which could reasonably be expected to have a Material Adverse Effect. During the period from December 31, 1993 to and including the date hereof, there has been no sale, transfer or other disposition by the Company or any of its consolidated Subsidiaries of any asset reflected on the balance sheet referred to above that would have been a material part of its business or property and no purchase or other acquisition of any business or property (including any capital stock of any other Person) material in relation to the consolidated financial condition of the Company and its consolidated Subsidiaries at December 31, 1993."

SECTION 9. Changes in Condition. For purposes of this Agreement, subsection 4.7 of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such subsection in its entirety and substituting in lieu thereof the following:

"4.7 Changes in Condition. Since December 31, 1993, there has been no development or event nor any prospective development or event, which has had, or may have, a Material Adverse Effect."

SECTION 10. Financial Statements. For purposes of this Agreement, subsection 6.4(b) of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended adding the following sentence to the end thereof:

"At such time that annual statements or quarterly statements, as the case may be, are furnished to each Bank pursuant to subsections 6.4(a) and 6.4(b), respectively, herein, the treasurer of the Company shall deliver to the Agent and the CAF Loan Agent a certificate showing the Consolidated Capitalization Ratio (the "Consolidated Capitalization Ratio Certificate") as of the last day of such fiscal quarter."

SECTION 11. Financial Condition Covenants. For purposes of this Agreement, subsection 7.1(a) of the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting the phrase "the Closing Date" in the sixth and seventh lines thereof and substituting in lieu thereof the phrase "September 30, 1993".

SECTION 12. Commitment Amounts and Percentages; Lending Offices; Addresses for Notice. For purposes of this

7

7

Agreement, Schedule 1 to the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such Schedule in its entirety and substituting in lieu thereof Schedule 1 to this Agreement.

SECTION 13. Applicable Margins. For purposes of this Agreement, Schedule 2 to the Original Credit Agreement as adopted and incorporated by reference into this Agreement is hereby amended by deleting such Schedule in its entirety and substituting in lieu thereof Schedule 2 to this Agreement.

SECTION 14. Conditions Precedent. The obligations of each Bank to make the Loans contemplated by subsections 2.1 and 2.2 and of the Issuing Bank to issue Letters of Credit contemplated by Section 3 of the Original Credit Agreement as adopted and incorporated by reference into this Agreement shall be subject to the compliance by the Company with its agreements herein contained (including its agreements contained in the Original Credit Agreement as adopted and incorporated by reference into this Agreement) and to the satisfaction on or before the Closing Date of the following further conditions:

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



each Bank, a Revolving Credit Note and a Grid CAF Loan Note conforming to the requirements hereof and executed by a duly authorized officer of the Company.

(b) Legal Opinions. On the Closing Date as the Agent shall request, each Bank shall have received from any general, associate, or assistant general counsel to the Company, such opinions as the Agent shall have reasonably requested with respect to the transactions contemplated by this Agreement.

(c) Company Officers' Certificate. The representations and warranties contained in Section 4 of the Original Credit Agreement as adopted and incorporated by reference into, and as amended by, this Agreement shall be true and correct on the Closing Date with the same force and effect as though made on and as of such date; on and as of the Closing Date and after giving effect to this Agreement, no Default shall have occurred (except a Default which shall have been waived in writing or which shall have been cured) and no Default shall exist after giving effect to the Loan to be made; and the Agent shall have received a certificate containing a representation

8

8

to these effects dated the Closing Date and signed by a Responsible Officer.

SECTION 15. Expenses. The Company agrees to pay or reimburse the Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the Notes and any other documents prepared in connection herewith, and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent.

SECTION 16. GOVERNING LAW. THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 17. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Company and the Agent.

9

9

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

HUMANA INC.

By: /s/ James W. Doucette

-----  
Title: Vice President-Investments &  
Treasurer

CHEMICAL BANK, as Agent, as CAF  
Loan Agent and as a Bank

By: /s/ B. Joseph Lillis

-----  
Title: Managing Director

CITIBANK, N.A.

By: /s/ Barbara A. Cohen

-----  
Title: Vice President

NATIONSBANK OF GEORGIA, N.A.

By: /s/ John E. Ball

-----  
Title: Senior Vice President

NATIONAL CITY BANK, KENTUCKY

By: /s/ Charles P. Denny

-----  
Title: Senior Vice President

PNC BANK, KENTUCKY, INC.

By: /s/ Michael B. Vairin

-----  
Title: Senior Vice President

10

10

WACHOVIA BANK OF GEORGIA, N.A.

By: /s/ J.P. Peyton

-----  
Title: Senior Vice President

BANK OF AMERICA NATIONAL TRUST  
& SAVINGS ASSOCIATION

By: /s/ Wyatt R. Ritchie

-----  
Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ Dana Maloney

-----  
Title: Relationship Manager

THE CHASE MANHATTAN BANK, N.A.

By: /s/ Michael K. Baxley

-----  
Title: Vice Prsident

FIRST INTERSTATE BANK OF CALIFORNIA

By: /s/ Daniel H. Hom

-----  
Title: Vice President

By: /s/ Wendy V.C. Purcell

-----  
Title: Vice President

LIBERTY NATIONAL BANK AND TRUST  
CO. OF KENTUCKY

By: /s/ Earl A. Darsey, Jr.

-----  
Title: Senior Vice President

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ Jay G. Sepanski

-----  
Title: Corporate Banking Officer

11

11

THE SUMITOMO BANK, LTD.,  
NEW YORK BRANCH

By: /s/ Yoshinori Kawamura

-----  
Title: Joint General Manager

THE TORONTO-DOMINION BANK

By: /s/ Warren Finlay

-----  
Title: Manager Credit

THE SANWA BANK, LIMITED,  
ATLANTA AGENCY

By: /s/ Naoki Ueyama

-----  
Title: Assistant Vice President

BANK OF LOUISVILLE & TRUST COMPANY

By: /s/ Roy L. Johnson Jr.

-----  
Title: Senior Vice President

12

12

BARNETT BANK OF BROWARD  
COUNTY, N.A.

By: /s/ Michael Cooney

-----  
Title: Vice President

THE BOATMEN'S NATIONAL BANK OF  
ST. LOUIS

By: /s/ Douglas W. Thornsberry

-----  
Title: Corporate Banking Officer

SHAWMUT BANK CONNECTICUT, N.A.

By: /s/ Manfred D. Eigenbrod

-----  
Title: Managing Director

13

SCHEDULE 1

Commitment Amounts and Percentages;  
Lending Offices; Address for Notices

A. Commitment Amounts and Percentages

Name of Bank -----	Commitment Amount -----	Commitment Percentage -----
Chemical Bank	\$ 31,000,000	8.857%
Citibank, N.A.	\$ 25,000,000	7.143%
NationsBank of Georgia, N.A.	\$ 25,000,000	7.143%
National City Bank, Kentucky	\$ 25,000,000	7.143%
PNC Bank, Kentucky, Inc.	\$ 25,000,000	7.143%
Wachovia Bank of Georgia, N.A	\$ 25,000,000	7.143%
Bank of America National Trust & Savings Association	\$ 18,000,000	5.143%
The First National Bank of Chicago	\$ 18,000,000	5.143%
The Chase Manhattan Bank, N.A.	\$ 18,000,000	5.143%
First Interstate Bank of California	\$ 18,000,000	5.143%
Liberty National Bank and Trust Co. of Kentucky	\$ 18,000,000	5.143%
The Sumitomo Bank, Ltd., New York Branch	\$ 18,000,000	5.143%
The Toronto-Dominion Bank	\$ 18,000,000	5.143%
The Sanwa Bank, Limited, Atlanta Agency	\$ 18,000,000	5.143%
The Bank of Nova Scotia	\$ 10,000,000	2.857%
Bank of Louisville & Trust Company	\$ 10,000,000	2.857%
Barnett Bank of Broward County, N.A.	\$ 10,000,000	2.857%
The Boatmen's National Bank of St. Louis	\$ 10,000,000	2.857%
Shawmut Bank Connecticut, N.A.	\$ 10,000,000	2.857%

Total

-----  
\$350,000,000

-----  
100.00 %

14

2

B. LENDING OFFICES; ADDRESSES FOR NOTICES

CHEMICAL BANK

Domestic Lending Office

Chemical Bank  
270 Park Avenue  
New York, NY 10017

Eurodollar Lending Office

Chemical Bank  
270 Park Avenue  
New York, NY 10017

Address for Notices

Chemical Bank  
270 Park Avenue  
New York, NY 10017  
Attention: James Ely  
Telecopy: (212) 270-3279

CITIBANK, N.A.

Domestic Lending Office

Citibank, N.A.  
399 Park Avenue  
New York, NY 10043

Eurodollar Lending Office

Citibank, N.A.  
399 Park Avenue  
New York, NY 10043

Address for Notices

Citicorp North America, Inc.  
2001 Ross Ave., Suite 1400  
Dallas, TX 75201  
Attn: J. Lang Aston  
Telecopy: (214) 953-3888

NATIONSBANK OF GEORGIA, N.A.

Domestic Lending Office

NationsBank of Georgia, N.A.  
600 Peachtree Street, N.E.  
21st Floor  
Atlanta, GA 30308

Eurodollar Lending Office

NationsBank of Georgia, N.A.  
600 Peachtree Street, N.E.  
21st Floor  
Atlanta, GA 30308

Address for Notices

NationsBank of Georgia, N.A.  
1 NationsBank Plaza  
Corporate Banking Dept.  
Nashville, TN 37239-1697  
Attention: Ashley M. Crabtree  
Telecopy: (615) 749-4112

15

3

NATIONAL CITY BANK, KENTUCKY

Domestic Lending Office

National City Bank, Kentucky  
101 S. Fifth Street  
Louisville, KY 40202

Eurodollar Lending Office

National City Bank, Kentucky  
101 S. Fifth Street  
Louisville, KY 40202

Address for Notices

National City Bank, Kentucky  
101 S. Fifth Street  
Louisville, KY 40202  
Attention: Charles P. Denny  
Telecopy: (502) 581-4424

PNC BANK, KENTUCKY, INC.

Domestic Lending Office

PNC Bank, Kentucky, Inc.  
500 W. Jefferson Street  
Louisville, KY 40202

Eurodollar Lending Office

PNC Bank, Kentucky, Inc.  
500 W. Jefferson Street  
Louisville, KY 40202

Address for Notices

PNC Bank, Kentucky, Inc.  
500 W. Jefferson Street  
Louisville, KY 40202  
Attention: Donald Buchanan  
Telecopy: (502) 581-3355

WACHOVIA BANK OF GEORGIA, N.A.

Domestic Lending Office

Wachovia Corporate Services, Inc.  
191 Peachtree Street, N.E.  
Atlanta, GA 30303

Eurodollar Lending Office

Wachovia Corporate Services, Inc.  
191 Peachtree Street, N.E.  
Atlanta, GA 30303

Address for Notices

Wachovia Corporate Services, Inc.  
191 Peachtree Street, N.E.  
Atlanta, GA 30303  
Attention: Solomon Elisha  
Telecopy: (404) 332-6898

16

4

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION

Domestic Lending Office

Bank of America  
1850 Gateway Blvd., 4th Floor  
Concord, CA 94520

Eurodollar Lending Office

Bank of America  
1850 Gateway Blvd., 4th Floor  
Concord, CA 94520

Address for Notices

Bank of America  
555 S. Flower Street, 11th Floor  
Mail Code 5618  
Los Angeles, CA 90071  
Attention: Wyatt Ritchie  
Telecopy: (213) 228-9734

THE FIRST NATIONAL BANK OF  
CHICAGO

Domestic Lending Office

The First National Bank of Chicago  
1 First National Plaza  
Chicago, IL 60670

Eurodollar Lending Office

The First National Bank of Chicago  
1 First National Plaza  
Chicago, IL 60670

Address of Notices

The First National Bank of Chicago  
1 First National Plaza  
Chicago, IL 60670

Attention: Jennifer Childe  
Telecopy : (312) 732-2016

17

5

THE BANK OF NOVA SCOTIA

Domestic Lending Office

The Bank of Nova Scotia,  
Atlanta Agency  
600 Peachtree Street, N.E.  
Suite 2700  
Atlanta, GA 30308

Eurodollar Lending Office

The Bank of Nova Scotia,  
Atlanta Agency  
600 Peachtree Street, N.E.  
Suite 2700  
Atlanta, GA 30308

Address for Notices

The Bank of Nova Scotia,  
Atlanta Agency  
600 Peachtree Street, N.E.  
Suite 2700  
Atlanta, GA 30308  
Attention: Greg Hurst  
Telecopy: (312) 201-4108

THE CHASE MANHATTAN BANK, N.A.

Domestic Lending Office

The Chase Manhattan Bank, N.A.  
1 Chase Manhattan Plaza, 5th Floor  
New York, NY 10081

Eurodollar Lending Office

The Chase Manhattan Bank, N.A.  
1 Chase Manhattan Plaza, 5th Floor  
New York, NY 10081

Address for Notices

The Chase Manhattan Bank, N.A.  
1 Chase Manhattan Plaza, 5th Floor  
New York, NY 10081  
Attention: Michael Bayley  
Telecopy: (212) 552-1457

FIRST INTERSTATE BANK OF CALIFORNIA

Domestic Lending Office

First Interstate Bank of California  
Commercial Loan Service Center, B10-6  
1055 Wilshire Blvd.  
Los Angeles, CA 90017



Eurodollar Lending Office

First Interstate Bank of California  
Commercial Loan Service Center, B10-6  
1055 Wilshire Blvd.  
Los Angeles, CA 90017

18

6

Address for Notices

First Interstate Bank of California  
707 Wilshire Blvd., W16-12  
Los Angeles, CA 90017  
Attention: Bruce P. McDonald  
Telecopy: (213) 614-2569

LIBERTY NATIONAL BANK AND TRUST CO. OF KENTUCKY

Domestic Lending Office

Liberty National Bank and Trust  
Co. of Kentucky  
416 W. Jefferson Street  
Louisville, KY 40202

Eurodollar Lending Office

Liberty National Bank and Trust  
Co. of Kentucky  
416 W. Jefferson Street  
Louisville, KY 40202

Address for Notices

Liberty National Bank and Trust  
Co. of Kentucky  
416 W. Jefferson Street  
Louisville, KY 40202  
Attention: Earl Dorsey, Jr.  
Telecopy: (502) 566-2367

THE SUMITOMO BANK, LTD.,  
NEW YORK BRANCH

Domestic Lending Office

The Sumitomo Bank, Ltd.,  
New York Branch  
One World Trade Center, Suite 9651  
New York, NY 10048

Eurodollar Lending Office

The Sumitomo Bank, Ltd.,  
New York Branch  
One World Trade Center, Suite 9651  
New York, NY 10048

Address for Notices

The Sumitomo Bank, Ltd.,  
New York Branch

One World Trade Center, Suite 9651  
New York, NY 10048  
Attention: Jeff Toner  
Telecopy: (212) 524-0612

19

7

THE TORONTO-DOMINION BANK

Domestic Lending Office

The Toronto-Dominion Bank  
909 Fanin Street, Suite 1700  
Houston, Texas 77010

Eurodollar Lending Office

The Toronto-Dominion Bank  
909 Fanin Street, Suite 1700  
Houston, Texas 77010

Address for Notices

The Toronto-Dominion Bank  
31 West 52nd Street  
New York, New York 10019  
Attention: Robert F. Maloney  
Telecopy: (212) 262-1929

THE SANWA BANK, LIMITED, ATLANTA AGENCY

Domestic Lending Office

The Sanwa Bank, Limited,  
Atlanta Agency  
133 Peachtree Street, Suite 4750  
Atlanta, GA 30303

Eurodollar Lending Office

The Sanwa Bank, Limited,  
Atlanta Agency  
133 Peachtree Street, Suite 4750  
Atlanta, GA 30303

Address for Notices

The Sanwa Bank, Limited,  
Atlanta Agency  
133 Peachtree Street, Suite 4750  
Atlanta, GA 30303  
Attention: Peter J. Pawlak  
Telecopy: (404) 589-1629

20

8

BANK OF LOUISVILLE & TRUST COMPANY

Domestic Lending Office

Bank of Louisville & Trust Company  
500 West Broadway  
Louisville, KY 40202

Eurodollar Lending Office

Bank of Louisville & Trust Company  
500 West Broadway  
Louisville, KY 40202

Address for Notices

Bank of Louisville & Trust Company  
500 West Broadway  
Louisville, KY 40202  
Attention: Roy L. Johnson, Jr.  
Telecopy: (502) 566-2367

BARNETT BANK OF BROWARD COUNTY, N.A.

Domestic Lending Office

Barnett Bank of Broward County, N.A.  
One East Broward Blvd., 2nd Floor  
Ft. Lauderdale, FL 33301

Eurodollar Lending Office

Barnett Bank of Broward County, N.A.  
One East Broward Blvd., 2nd Floor  
Ft. Lauderdale, FL 33301

Address for Notices

Barnett Bank  
50 North Laura Street, 17th Floor  
Jacksonville, FL 32202  
Attention: Larry Katz  
Telecopy: (904) 791-7023

THE BOATMEN'S NATIONAL BANK OF ST. LOUIS

Domestic Lending Office

The Boatmen's National Bank  
of St. Louis  
800 Market Street  
P.O. Box 236  
St. Louis, MO 63166-0236

Eurodollar Lending Office

The Boatmen's National Bank  
of St. Louis  
800 Market Street  
P.O. Box 236  
St. Louis, MO 63166-0236

Address for Notices

The Boatmen's National Bank

of St. Louis  
 800 Market Street  
 P.O. Box 236  
 St. Louis, MO 63166-0236  
 Attention: Doug Thornsberry  
 Telecopy: (314) 466-6499

SHAWMUT BANK CONNECTICUT, N.A.

Domestic Lending Office

Shawmut Bank Connecticut, N.A.  
 777 Main Street  
 MSN 397  
 Hartford, CT 06115

Eurodollar Lending Office

Shawmut Bank Connecticut, N.A.  
 777 Main Street  
 MSN 397  
 Hartford, CT 06115

Address for Notices

Shawmut Bank Connecticut, N.A.  
 777 Main Street  
 MSN 397  
 Hartford, CT 06115  
 Attention: Manfred Eigenbrod  
 Telecopy: (203) 986-5367

Applicable Margins

REVOLVING CREDIT LOANS

Consolidated Capitalization Ratio -----	Alternate Base Rate Loans -----	Eurodollar Loans -----
less than .20	.000%	.2500%
at least .20 but less than .30	.000%	.3250%
at least .30 but less than .40	.000%	.3750%
at least .40	.000%	.4375%

MEMO TO: Officers - Humana Inc.

COPY TO:

FROM:

DATE:

SUBJECT: EXTENDED HEALTH BENEFIT

This is to advise you that the Compensation Committee of the Board of Directors has decided to make available an extended post-termination health insurance benefit to persons who are officers of Humana Inc.

Such benefit will apply to persons who are officers at the time of termination whether such termination is voluntary or involuntary or by reason of disability or retirement; provided, that the benefit will not be available if termination shall be for cause.

Participants will be entitled to continuation of health coverage, under an insured program available to Humana employees, until age sixty-five (65) by paying an amount for such coverage calculated in the manner provided under the Consolidated Omnibus Budget Reconciliation Act (COBRA). This amount is equal to the total premium for such coverage, plus a small administrative fee. Each participant's spouse also shall be entitled, as participant's dependent, to continuation of health insurance coverage until the spouse reaches age sixty-five (65) under the same plans as the participant and subject to the same terms and cost of coverage under those plans as the participant. However, once the participant or spouse reaches age sixty-five (65) and is entitled to coverage under Medicare (or its successor), the Medicare-eligible individual shall not be entitled to dependent coverage under the other's coverage. If the participant discontinues coverage for any reason, coverage will not be reinstated.

HUMANA INC.  
 RATIO OF EARNINGS TO FIXED CHARGES  
 FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992  
 (UNAUDITED)

	YEARS ENDED DECEMBER 31,		
	1994	1993	1992
Earnings:			
Income (loss) before income taxes	\$ 257	\$ 143	\$ (154)
Fixed charges	9	11	15
	-----	-----	-----
	\$ 266	\$ 154	\$ (139)
	=====	=====	=====
Fixed charges:			
Interest charged to expense	\$ 4 (a)	\$ 7	\$ 11
One-third of rent expense (c)	5	4	4
	-----	-----	-----
	\$ 9	\$ 11	\$ 15
	=====	=====	=====
Ratio of earnings to fixed charges	28.9	14.1	(b)
	=====	=====	=====

- (a) Interest expense for the year ended December 31, 1994, excludes the impact of the nonrecurring item related to the second quarter favorable settlement of tax disputes with the Internal Revenue Service.
- (b) Earnings were inadequate to cover fixed charges by \$139 million for the year ended December 31, 1992. The deficiency for the year ended December 31, 1992, was caused by the recording of \$171 million of restructuring and unusual charges in August 1992.
- (c) One-third of rent expense is considered representative of the underlying interest.

## FINANCIAL SECTION

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Humana Inc.

Selected Financial Data	18
Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Consolidated Balance Sheet	23
Consolidated Statement of Operations	24
Consolidated Statement of Common Stockholders' Equity	25
Consolidated Statement of Cash Flows	26
Notes to Consolidated Financial Statements	27
Report of Independent Accountants	33
Quarterly Financial Information (Unaudited)	33
Directors	34
Executive Management and Officers	35
Additional Information	36

## SELECTED FINANCIAL DATA

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Humana Inc.

Dollars in millions except per share results

For the years ended	December 31,			August 31,		
	1994	1993	1992	1992	1991	1990
SUMMARY OF OPERATIONS						
Revenues:						
Premiums:						
Commercial	\$2,056	\$1,709	\$1,642	\$1,576	\$1,239	\$ 776
Medicare risk	1,406	1,296	1,112	1,073	898	653
Medicare supplement	114	132	127	122	94	65
Total premiums	3,576	3,137	2,881	2,771	2,231	1,494
Interest	62	48	36	37	36	31
Other income	16	10	4	3	2	
Total revenues	3,654	3,195	2,921	2,811	2,269	1,525
Income (loss) before income taxes	257(a)	143	(154) (b)	(164) (b)	14	(9)
Net income (loss)	176(a)	89	(107) (b)	(114) (b)	9	(4)
Earnings (loss) per common share	1.10(a)	.56	(.68) (b)	(.72) (b)	.06	(.03)
Net cash provided by (used in) operations	298	185	124	(57)	66	165

FINANCIAL POSITION

Cash, cash equivalents and marketable securities	\$1,203	\$1,134	\$ 614	\$ 431	\$ 486	\$ 411
Total assets	1,957	1,731	1,189	1,011	1,005	704
Medical costs payable	527	448	400	381	317	282
Stockholders' equity	1,058	889	376	367	407	216
OPERATING DATA						
Medical loss ratio	81.6%	83.8%	86.3%	86.0%	84.4%	86.1%
Administrative cost ratio	13.6%	13.2%	14.1%	14.7%	16.1%	16.9%
Membership:						
Commercial	1,528,300	1,214,000	1,219,800	1,237,500	1,208,100	819,600
Medicare risk	287,400	270,800	266,300	262,300	249,900	193,400
Medicare supplement	131,700	153,600	198,900	203,900	203,100	159,100
	1,947,400	1,638,400	1,685,000	1,703,700	1,661,100	1,172,100
Administrative services	93,500	63,700	30,600	30,400	29,900	10,300
Total membership	2,040,900	1,702,100	1,715,600	1,734,100	1,691,000	1,182,400

(a) Includes \$11 million before income tax (\$17 million or \$.10 per share, net of tax) related to the favorable settlement of income tax disputes with the Internal Revenue Service partially offset by the write-down of a nonoperational asset.

(b) Includes \$171 million before income tax (\$118 million or \$.75 per share, net of tax) of restructuring and unusual charges.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

-----  
Humana Inc.

The selected financial data of Humana Inc. ("Humana" or the "Company") in this Annual Report sets forth certain information with respect to the Company's financial position, results of operations and cash flows and should be read in conjunction with the following discussion and analysis.

INTRODUCTION

On March 1, 1993, Humana separated into two independent publicly-held companies (the "Spinoff"), one to operate the managed care health plan business and the other to operate the acute-care hospital business (Galen Health Care, Inc. ("Galen")). Humana retained and continues to operate the managed care health plan business. The financial information contained herein for periods prior to the Spinoff represents the financial information of what had historically been the managed care health plan business of Humana and does not correspond with or represent the historical consolidated financial information of Humana.

In conjunction with the Spinoff, the Company changed its fiscal year end from August 31 to December 31. For purposes of comparability, the Company restated 1992 results on a calendar year basis and therefore, the following discussion of "Results of Operations" compares the years ended December 31, 1994 and 1993, and the year ended December 31, 1993, to the twelve months ended December 31, 1992 (the "year ended December 31, 1992").

The Company offers managed care products which integrate financing and management with the delivery of managed 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").

Humana'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").

COMPARISON OF RESULTS OF OPERATIONS

Years Ended December 31, 1994 and 1993

The Company's premium revenues increased 14 percent to \$3.6 billion for the year ended December 31, 1994, compared to \$3.1 billion for the year ended December 31, 1993. The increase in premium revenues is attributable to same-store Commercial and Medicare risk membership gains, average premium rate increases of 3 percent for the Commercial product and 4 percent for the Medicare risk product and the February 1994 acquisition of Group Health Association ("GHA"). GHA premium revenues during the year ended December 31, 1994, totaled approximately \$164 million. Given the competitive environment, the Company expects that 1995 Commercial premium rates will remain the same as in 1994. The 1995 Medicare risk premium rate increase is expected to approximate 6 percent.

On a same-store basis, Commercial membership increased 120,000 (10 percent) for the year ended December 31, 1994, while Medicare risk membership increased 16,600 (6 percent). The same-store increase in Commercial membership is the result of increased penetration in areas contiguous to the Company's existing markets, expanded hospital and physician delivery networks, and the Company's ability to price its products more competitively as a result of medical cost reductions. Sales in contiguous markets, network expansion and competitive pricing are expected to continue, and as a result, management estimates that same-store Commercial growth will exceed 10 percent during 1995. The January 1995 same-store Commercial membership gain was approximately 96,200 (7 percent) compared to 37,100 (3 percent) in January 1994. Medicare supplement membership declined by 21,900 members during the year ended December 31, 1994, as anticipated, continuing the decline first experienced in 1993. Membership data follows:

Amounts in thousands	1994	1993
Beginning membership	1,638.4	1,685.0
Same-store sales	376.7	267.9
Acquisitions (divestitures)	194.3	(6.4)
Same-store cancellations	(262.0)	(308.1)
Ending membership	1,947.4	1,638.4
Average membership	1,802.4	1,637.9

4

In addition to the membership above, the Company also provides administrative services only ("ASO") products. ASO membership at December 31, 1994 and 1993, was 93,500 and 63,700, respectively. Net ASO membership for January 1995 increased 136,200 members compared to a minor decrease for the same period last year.

The medical loss ratio for the year ended December 31, 1994, was 81.6 percent compared to 83.8 percent for the year ended December 31, 1993. This improvement was primarily due to decreased hospital utilization in both the Commercial and Medicare risk products. Patient days per thousand members for the year ended December 31, 1994, decreased 4 percent from the same period a year ago to 267 days per thousand for the Commercial product and 7 percent to 1,412 days for the Medicare risk product. Because the Company does not expect its 1995 Commercial product premium rate to increase, additional improvements in hospital and other medical services costs are necessary to achieve further reductions in the medical loss ratio.

The administrative cost ratio (which excludes costs associated with restructuring and unusual charges) was 13.6 percent and 13.2 percent for the years ended December 31, 1994 and 1993, respectively. This 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.

In August 1992, the Company recorded restructuring and unusual charges amounting to \$171 million in connection with the Spinoff. At December 31, 1994, liabilities totaling \$52 million, primarily related to disputed contract obligations, remain. Final resolution of these contract disputes is expected in two to three years. The recurring effect of the August 1992 charges did not materially impact results of operations for the year ended December 31, 1994. Management regularly evaluates the continued reasonableness of the restructuring and unusual charges and to the extent adjustments are necessary, earnings are charged or credited in the current period.

Interest income totaled \$62 million for the year ended December 31, 1994, compared to \$48 million for the year ended December 31, 1993. The increase in interest income is primarily attributable to increased levels of cash, cash equivalents and marketable securities. Tax equivalent yield on invested assets approximated 6 percent for the years ended December 31, 1994 and 1993. Tax equivalent yield is the rate earned on invested assets, excluding unrealized gains and losses, adjusted for the benefit of nontaxable investment income. The weighted average investment life was 2.3 and 2.0 years at December 31, 1994 and 1993, respectively.

The Company's income before income taxes totaled \$257 million for the year ended December 31, 1994, compared to \$143 million for the year ended December 31, 1993. Income before income taxes for 1994 included \$29 million related to the favorable settlement of tax disputes with the Internal Revenue Service (the "IRS") partially offset by an \$18 million charge related to the write-down of a nonoperational asset. Net income increased to \$176 million or \$1.10 per share from \$89 million or \$.56 per share for the years ended December 31, 1994 and 1993, respectively. Net income for the year ended December 31, 1994, included \$17 million or \$.10 per share related to the unusual items discussed above. As a result of the tax settlement and asset write-down, the Company's interest, depreciation and income tax expenses decreased. The recurring effect of these expense reductions during the year ended December 31, 1994, was \$7 million or \$.04 per share. The 1995 effect of these expense reductions is estimated to be \$.05 per share.

Years Ended December 31, 1993 and 1992

The following discussion comparing the year ended December 31, 1993, to the year ended December 31, 1992, excludes the impact of the \$171 million in restructuring and unusual charges recorded in August 1992. With respect to these charges, \$77 million related to the write-down of assets and \$42 million was used to pay restructuring and unusual costs. The remaining \$52 million represented liabilities related to disputed contract obligations, product discontinuances and market closures. The asset write-downs discussed above had the effect of reducing depreciation and amortization expense by \$5 million for the year ended December 31, 1993.

The Company's premium revenues increased 9 percent to \$3.1 billion for the year ended December 31, 1993, compared to \$2.9 billion for the year ended December 31, 1992, due to average Commercial product premium rate increases of 7 percent and Medicare risk product premium rate increases of 14 percent. The impact of the 1993 premium rate increases on premium revenues was partially offset by the membership reductions discussed below.

Membership data follows:

Amounts in thousands	1993	1992
Beginning membership	1,685.0	1,673.7
Same-store sales	267.9	280.8
Acquisitions (divestitures)	(6.4)	79.9
Same-store cancellations	(308.1)	(349.4)
Ending membership	1,638.4	1,685.0
Average membership	1,637.9	1,699.4

Membership declined 3 percent during the year ended December 31, 1993, primarily due to a decline in Medicare supplement product membership. This decline was the result of management's decision to increase Medicare supplement product premium rates effective January 1, 1993, to more closely approximate competitive levels. Commercial product membership increased during the third and fourth quarters of 1993 as medical cost improvements allowed the Company to be more competitive in its pricing. The increase in Commercial product membership in the last six months of 1993 offset the decline in Commercial product enrollment during the first six months of 1993. The decline resulted primarily from the Company's pricing policy which attempted to maintain operating margins during a period when the Company's cost structure was high. Medicare risk membership levels remained relatively constant during 1993.

The medical loss ratio for the year ended December 31, 1993, was 83.8 percent compared to 86.3 percent for the year ended December 31, 1992. Principal factors contributing to the improvement in the medical loss ratio included Medicare product premium rate increases, improved hospital utilization and favorable other medical services costs experience in the Commercial and Medicare risk products.

The administrative cost ratio was 13.2 percent and 14.1 percent for the years ended December 31, 1993 and 1992, respectively. The improvement in the administrative cost ratio was attributable to the impact of 1992 work force reductions and an emphasis by management in controlling administrative costs.

Interest income totaled \$48 million for the year ended December 31, 1993, compared to \$36 million for the year ended December 31, 1992. The increase in interest income was attributable to interest being earned on notes receivable and cash payments received in connection with the Spinoff. Tax equivalent yield on invested assets approximated 6 percent and 8 percent for the years ended December 31, 1993 and 1992, respectively.

The Company's income before income taxes totaled \$143 million for the year ended December 31, 1993, compared to \$17 million (excluding the impact of the previously mentioned restructuring and unusual charges) for the year ended December 31, 1992.

#### LIQUIDITY

Cash provided by the Company's operations totaled \$298 million and \$185 million for the years ended December 31, 1994 and 1993, respectively. The timing of the receipt of Medicare risk premiums reduced cash provided by operations by \$110 million for the year ended December 31, 1994, and increased cash provided by operations by \$8 million for the year ended December 31, 1993. Excluding the effect of the timing of the receipt of Medicare risk premiums, cash provided by operations was \$408 million and \$177 million for the years ended December 31, 1994 and 1993, respectively. The increase in operating cash flows was primarily attributable to increased net income, the \$71 million favorable settlement of tax disputes with the IRS, and the timing of payments for medical costs and other expenses.

Cash provided by operations for the year ended December 31, 1993, totaled \$185 million compared to \$124 million for the year ended December 31, 1992. The improvement in 1993 operating cash flows was the result of increased net income, improved premiums receivable collections and the timing of payments for medical costs and other expenses. In addition, operating cash flows for the year ended December 31, 1992, were reduced due to the prepayment to the IRS of taxes and interest related to the current deductibility of medical costs payable.

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 its parent company requires regulatory approval. At December 31, 1994, the Company had approximately \$220 million of unrestricted cash, cash equivalents and marketable securities compared to approximately \$250 million at December 31, 1993.

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, which was consummated in October 1994, are sufficient to meet 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 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. Total capital expenditures amounted to \$39 million, \$28 million and \$34 million for the years ended December 31, 1994, 1993 and 1992, respectively.

Excluding acquisitions, planned capital spending in 1995 will approximate \$45 million to \$50 million most of which will relate to the expansion and improvement of medical care facilities, administrative facilities and related computer information systems.

During February 1994, the Company acquired GHA, a health plan in Washington, D.C., with approximately 116,700 members for \$55 million. During December 1994, the Company acquired CareNetwork, Inc., a health plan in Milwaukee, Wisconsin with approximately 84,400 members for \$126 million. During the year ended December 31, 1992, the Company acquired three health plans for \$38 million with approximately 80,000 members. The Company may make acquisitions from time to time and is currently reviewing various acquisition opportunities.

#### EFFECTS OF INFLATION AND CHANGING PRICES

The Company's operations are regulated by various state and federal government agencies. Actuarially determined premium rate increases for Commercial and Medicare supplement products are generally approved by the respective state insurance commissions, while increases in premiums for Medicare risk products are determined by the Health Care Financing Administration ("HCFA"). Medicare risk premiums approximated 39 percent, 41 percent and 39 percent of the Company's premium revenues for the years ended December 31, 1994, 1993 and 1992, respectively. The Company's 1995 average rate of increase under the Medicare risk contracts is approximately 6 percent. Although annual increases have varied significantly, increases have averaged 5.7 percent over the last five years, including the January 1995 increase. The Company's Medicare risk contracts with the federal government 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 March 1, 1995, the Company entered its third year of a three-year operating agreement with Galen whereby the Company uses the services of Galen's hospitals guaranteeing certain minimum utilization levels. Rate increases charged for such services are defined under the terms of the agreement. Commercial product rate increases for hospital services are limited to the lesser of the increase in the hospital Consumer Price Index or the Company's Commercial product premium rate increases, less one percent. Medicare risk product rate increases for hospital services approximate the percentage adjustment in HCFA's market specific hospital payment rate to the Company. Management believes that the contract rates under the operating agreement are competitive. During the years ended December 31, 1994, 1993 and 1992, 13 percent, 16 percent and 18 percent, respectively, of the Company's total medical costs were incurred in Galen's hospitals.

#### OTHER INFORMATION

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.

During 1994, HCFA began an investigation of the Company's South Florida health plan (the "Plan"). HCFA's findings, which focused primarily on the collection and use of data, indicated the Plan was not fully meeting HCFA requirements in the areas of utilization management, quality assurance and availability/accessibility. In addition, the Plan was denied accreditation by the National Committee for Quality Assurance ("NCQA"). The Company has implemented 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.

#### CONSOLIDATED BALANCE SHEET

-----  
Humana Inc.

Dollars in millions except per share amounts  
-----

December 31,	1994	1993
--------------	------	------

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#### ASSETS

##### Current assets:

Cash and cash equivalents	\$ 272	\$ 372
Marketable securities	609	427
Premiums receivable, less allowance for doubtful accounts of \$20 in 1994 and \$17 in 1993	74	37
Deferred income taxes	45	129
Other	38	37

Total current assets	1,038	1,002
----------------------	-------	-------

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##### Property and equipment, net

##### Other assets:

Long-term marketable securities	322	335
Cost in excess of net assets acquired	155	1
Deferred income taxes	56	16
Other	69	77

Total other assets	602	429
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TOTAL ASSETS	\$1,957	\$1,731
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#### LIABILITIES AND COMMON STOCKHOLDERS' EQUITY

##### Current liabilities:

Medical costs payable	\$ 527	\$ 448
Trade accounts payable and accrued expenses	233	154
Unearned premium revenues	56	110
Income taxes payable	56	59

Total current liabilities	816	771
---------------------------	-----	-----

Long-term obligations	83	71
Total liabilities	899	842
Contingencies		
Common stockholders' equity:		
Common stock, \$.16 2/3 par; authorized 300,000,000 shares; issued and outstanding 161,330,064 shares - 1994 and 160,343,788 shares - 1993	27	27
Capital in excess of par value	803	785
Retained earnings	249	73
Net unrealized investment gains (losses)	(21)	4
Total common stockholders' equity	1,058	889
TOTAL LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	\$1,957	\$1,731

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

Humana Inc.

Dollars in millions except per share results

	Years Ended December 31,		
	1994	1993	1992
Revenues:			
Premiums	\$3,576	\$3,137	\$2,881
Interest	62	48	36
Other income	16	10	4
Total revenues	3,654	3,195	2,921
Operating expenses:			
Medical costs	2,918	2,630	2,485
Selling, general and administrative	436	368	355
Depreciation and amortization	50	47	52
Restructuring and unusual charges	18 (a)		171
Total operating expenses	3,422	3,045	3,063
Income (loss) from operations	232	150	(142)
Interest expense (recovery)	(25) (a)	7	12
Income (loss) before income taxes	257 (a)	143	(154)
Provision (benefit) for income taxes	81 (a)	54	(47)
Net income (loss)	\$ 176 (a)	\$ 89	\$ (107)
Earnings (loss) per common share	\$ 1.10 (a)	\$ .56	\$ (.68)

(a) Net income includes the favorable settlement of tax disputes with the Internal Revenue Service partially offset by the write-down of a nonoperational asset.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMMON STOCKHOLDERS' EQUITY

Humana Inc.

In millions

	Common Stock		Capital In Excess of Par Value	Retained Earnings	Net Unrealized Investment Gains (Losses)	Equity Funding	TOTAL EQUITY
	Shares	Amount					

Balance, January 1, 1992					\$ 411	\$ 411
Net loss					(107)	(107)
Equity funding					72	72
-----						
Balance, December 31, 1992					376	376
Net income			\$ 73		16	89
Capital contributions			\$408			408
Spinoff capitalization	159	\$ 26	366		(392)	
Other	1	1	11	\$ 4		16
-----						
Balance, December 31, 1993	160	27	785	73	4	889
Net income				176		176
Other	1		18		(25)	(7)
-----						
Balance, December 31, 1994	161	\$ 27	\$803	\$249	\$(21)	\$1,058
-----						

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Humana Inc.

Dollars in millions

	Years Ended December 31,		
	1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 176	\$ 89	\$(107)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Restructuring and unusual charges	18		171
Depreciation and amortization	50	47	52
Deferred income taxes	58	(13)	(126)
Changes in operating assets and liabilities:			
Premiums receivable	(8)	16	1
Other current assets	8	(16)	1
Medical costs payable	36	58	41
Other current liabilities	67	(18)	75
Unearned premium revenues	(110)	8	14
Other	3	14	2
Net cash provided by operating activities	298	185	124
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of health plan assets	(162)	(5)	(43)
Purchase of property and equipment	(39)	(28)	(34)
Disposition of property and equipment	13	8	7
Purchases of marketable securities	(523)	(1,667)	(238)
Maturities and sales of marketable securities	337	1,299	217
Other	(28)	(23)	
Net cash used in investing activities	(402)	(416)	(91)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions		383	72
Other	4	(13)	(9)
Net cash provided by financing activities	4	370	63
Increase (decrease) in cash and cash equivalents	(100)	139	96
Cash and cash equivalents at beginning of period	372	233	137
Cash and cash equivalents at end of period	\$ 272	\$372	\$233
Interest payments (refunds), net	\$ (20)	\$ 1	\$ 25
Income tax payments, net	21	58	58

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Humana Inc.

1. REPORTING ENTITY

Basis of Presentation

On March 1, 1993, Humana Inc. ("Humana" or the "Company") separated its managed care health plan and acute-care hospital businesses into two independent publicly-held companies (the "Spinoff"). The Spinoff was effected through the distribution to Humana stockholders of record as of the close of business on March 1, 1993, of all the outstanding shares of common stock of a new hospital company, Galen Health Care, Inc. ("Galen") (now a subsidiary of Columbia/HCA Healthcare Corporation ("Columbia")). Humana retained and continues to operate the managed care health plan business.

The Company and Galen entered into various agreements in connection with the Spinoff. These agreements include a hospital services operating agreement, liability and tax sharing agreements, and various administrative services agreements. Total medical costs incurred by the Company for hospital services provided by Galen amounted to \$375 million, \$426 million and \$444 million, for the years ended December 31, 1994, 1993 and 1992, respectively.

The consolidated financial statements contained herein are the separate financial statements of what historically had been the managed care health plan business of Humana and do not correspond with or represent the consolidated financial statements of Humana prior to the Spinoff. For the year ended December 31, 1992, certain Spinoff-related allocations and estimates were made by management in the accompanying consolidated financial statements to present the results of operations of the Company as a separate entity. In conjunction with the Spinoff, the Company changed its fiscal year end from August 31 to December 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include all subsidiaries of the Company. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, commercial paper, and certain U.S. Government securities with an original maturity of three months or less.

Marketable Securities

The Company adopted Statement of Financial Accounting Standards No. 115 ("SFAS No.115"), "Accounting for Certain Investments in Debt and Equity Securities," effective December 31, 1993.

At December 31, 1994 and 1993, marketable equity and debt securities have been categorized as available for sale and, as a result, are stated at fair value based generally on quoted market prices. Marketable equity and debt securities being held for the Company's future acquisition, capital spending and professional liability requirements are classified as long-term assets. Other



marketable securities available for current operations are classified as current assets. Unrealized holding gains and losses, net of applicable deferred taxes, are included as a component of common stockholders' equity until realized.

Premium Revenue Recognition

Premium revenues are reported as revenues in the period in which members are entitled to receive managed care services. Premiums received prior to such period are recorded as unearned premium revenues.

Property and Equipment

Property and equipment is carried at cost and is comprised of the following at December 31, 1994 and 1993:

Dollars in millions	1994	1993
Land	\$ 29	\$ 25
Buildings	231	224
Equipment	278	248
	538	497
Accumulated depreciation	(221)	(197)
	\$ 317	\$ 300

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Humana Inc.

Depreciation is computed using the straight-line method over estimated useful lives generally ranging from 3 to 25 years. Depreciation expense was \$39 million, \$35 million and \$34 million, for the years ended December 31, 1994, 1993 and 1992, respectively.

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired represents the unamortized excess of cost over the fair value of tangible and identifiable intangible assets acquired and is being amortized on a straight-line basis over periods not exceeding 40 years. The carrying value of all intangible assets is periodically reviewed by management and impairments are recognized when the expected undiscounted future operating cash flows derived from operations associated with such intangible assets are less than their carrying value. Accumulated amortization totaled \$2 million and \$1 million, at December 31, 1994 and 1993, respectively.

Medical Costs

Medical costs include claim payments and estimates of future payments to be made for hospital and other medical claims incurred prior to the balance sheet date. Substantially all claims are paid within 90 days from the date service is provided. Estimates for future payments relating to services incurred in current and prior periods are continually reviewed by management, and to the extent necessary, adjustments are reflected in current operations. Such adjustments were not significant for the years ended December 31, 1994, 1993 or 1992. In addition to medical claims, the Company pays physician salaries and capitation costs as well as various additional operating costs. Capitation costs represent monthly prepaid fees paid to participating primary care physicians and other medical specialists for the provision of medical care to the Company's members.

Common Stockholders' Equity

The Company's equity, prior to the Spinoff, was the result of managed care health plan business net income or loss, as well as funding from Galen. Therefore, pre-Spinoff equity is referred to as "Equity Funding" in the accompanying consolidated statement of common stockholders' equity.

Earnings per Common Share

Earnings per common share are based upon the weighted average number of common shares outstanding. Shares used in computing earnings per common share were 160,910,641, 159,283,680 and 158,619,551, for the years ended December 31, 1994, 1993 and 1992, respectively.

3. RESTRUCTURING AND UNUSUAL CHARGES

In June 1994, the Company recorded an \$18 million charge before income tax (\$11 million or \$.07 per share net of tax) to reduce the net book value of a nonoperational asset to its estimated fair value.

In August 1992, the Company recorded restructuring and unusual charges amounting to \$171 million primarily in connection with the Spinoff. Included in these restructuring and unusual charges were write-downs of \$77 million related to the impairment of operational and administrative assets, and \$94 million related to disputed contract obligations, anticipated market closures and costs directly associated with the Spinoff. At December 31, 1994, liabilities totaling \$52 million, primarily related to disputed contract obligations, remain. Final resolution of these disputed contract obligations is expected in two to three years. Management regularly evaluates the continued reasonableness of these charges, and to the extent adjustments are necessary, current earnings are charged or credited.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Humana Inc.

4. INVESTMENTS

Marketable securities classified as current assets at December 31, 1994 and 1993, include the following:

Dollars in millions	1994				1993			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government securities	\$ 35		\$ (2)	\$ 33	\$ 20	\$ 1		\$ 21
Tax exempt municipal bonds	472	\$ 2	(17)	457	391	4	\$ (1)	394
Marketable equity securities	52		(5)	47				
Other	76		(4)	72	12			12
	\$ 635	\$ 2	\$ (28)	\$ 609	\$ 423	\$ 5	\$ (1)	\$ 427

Management does not anticipate realization of the above gross unrealized losses in the upcoming year due to the anticipated availability of cash flows from operations to fund current operating requirements.

Marketable securities classified as long-term assets at December 31, 1994 and 1993, include the following:

Dollars in millions	1994				1993			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government securities	\$ 5			\$ 5	\$ 29			\$ 29
Tax exempt municipal bonds	252		\$ (9)	243	158	\$ 1	\$ (1)	158
Marketable equity securities	64		(1)	63	103	3	(1)	105
Other	11			11	42	1		43
	\$ 332		\$ (10)	\$ 322	\$ 332	\$ 5	\$ (2)	\$ 335

The contractual maturities of debt securities available for sale at December 31, 1994, regardless of their balance sheet classification, follow:

Dollars in millions	Amortized Cost	Fair Value
Due within one year	\$ 143	\$ 143
Due after one year through five years	297	289
Due after five years through ten years	126	119
Due after ten years	36	35
Not due at a single maturity date	249	235
	\$ 851	\$ 821

Gross realized gains and gross realized losses from the sale of securities classified as available for sale were not material for the years ended December 31, 1994 and 1993. For the purpose of determining gross realized gains and losses, the cost of securities sold is based upon specific identification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Humana Inc.

5. INCOME TAXES

The provision for income taxes consists of the following:

Dollars in millions	Years Ended December 31,		
	1994	1993	1992
Current provision (benefit):			
Federal	\$ 72	\$ 57	\$ 80
State	11	6	(1)
	83	63	79

Deferred provision (benefit):			
Federal	(2)	(8)	(138)
State		(1)	12
	(2)	(9)	(126)
	\$ 81	\$ 54	\$ (47)

The income tax provision (benefit) was different from the amount computed using the federal statutory income tax rate due to the following:

Dollars in millions	Years Ended December 31,		
	1994	1993	1992
Income tax provision (benefit) at federal statutory rate	\$ 90	\$ 50	\$ (52)
State income taxes, net of federal benefit	7	4	(4)
Tax exempt investment income	(12)	(7)	(4)
Amortization	1	4	18
Other items, net	(5)	3	(5)
	\$ 81	\$ 54	\$ (47)

Cumulative temporary differences which give rise to deferred tax assets and liabilities at December 31, 1994 and 1993, were as follows:

Dollars in millions	Assets (Liabilities)	Assets (Liabilities)
	1994	1993
Medical costs payable	\$ 4	\$ 94
Professional liability insurance	25	18
Investments	15	(3)
Intangible amortization	13	
Restructuring and unusual charges	25	17
Other	36	38
Depreciation	(17)	(19)
	\$101	\$145

Management believes that the deferred tax assets will ultimately be realized based primarily on the existence of sufficient taxable income within the allowable carryback periods.

During 1994, the Company received \$71 million income tax refunds for the settlement of disputes with the Internal Revenue Service related to the timing of medical claims deductions and the deductibility of intangible amortization for tax years 1988 through 1991. The Company had previously prepaid tax and interest for these issues for the 1988 and 1989 tax years to stop the accrual of interest on the disputed amounts. As a result of the settlement, the Company recognized a \$29 million reduction of interest expense (\$18 million or \$.11 per share after tax) and a \$10 million reduction of tax expense (\$.06 per share), both of which represented the cumulative effect from 1988 to present of amounts previously provided.

At December 31, 1994, the Company had net operating loss carryforwards of approximately \$29 million related to a 1992 acquisition. These loss

carryforwards, if unused to offset future taxable income of the acquired subsidiary, will expire in 2001 through 2006.

## 6. PROFESSIONAL LIABILITY RISKS

The Company insures substantially all professional liability risks through a wholly-owned subsidiary (the "Captive Subsidiary"). Provisions for such risks, including expenses incident to claim settlements, were \$22 million, \$17 million and \$13 million for the years ended December 31, 1994, 1993 and 1992, respectively. The Captive Subsidiary reinsures levels of coverage for losses in excess of its retained limits with unrelated insurance carriers. Allowance for professional liability risks and the equivalent amounts of marketable securities related to the funding thereof included in the accompanying consolidated balance sheet were \$63 million and \$50 million at December 31, 1994 and 1993, respectively.

30

15

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Humana Inc.

## 7. LONG-TERM OBLIGATIONS

On October 27, 1994, the Company consummated an unsecured credit agreement with a group of banks which provided for a \$350 million revolving line of credit (the "Credit Agreement"). Principal amounts outstanding under the Credit Agreement will bear interest depending on the ratio of debt to debt plus net worth at rates ranging from LIBOR plus 25.0 basis points to LIBOR plus 43.75 basis points. No amounts were drawn against the line during the year ended December 31, 1994.

## 8. COMMON STOCKHOLDERS' EQUITY

For financial reporting purposes, the historical equity of the Company at the time of the Spinoff consisted of the cumulative net income or loss of the managed care health plan business, as well as contributions by Galen. In connection with the Spinoff, Galen contributed cash and other assets with a book value of \$160 million to the Company. Also in connection with the Spinoff, certain subsidiaries of Galen issued promissory notes ("Notes") to the Company. Under the terms of the Notes, the full principal amount of \$250 million became due upon certain "change of control" transactions. As a result of the Columbia merger with Galen, during 1993 the Company received cash of \$248 million in full satisfaction of the Notes.

The Company has plans under which options to purchase common stock have been granted to officers, certain directors and key employees. Options were granted at not less than market price on the date of grant. Exercise provisions vary, but most options are exercisable in whole or in part beginning one to four years after grant and ending ten years after grant.

In connection with the Spinoff, each Humana employee who held options in Humana prior to the Spinoff retained their options to purchase Company stock and also received a like number of Galen options for which the exercise price and number of shares were adjusted based upon the terms of the Spinoff. The percentages used to adjust the exercise price, which were based on the relative fair market values of the underlying Company and Galen common stock immediately after the Spinoff, were 37.8 percent and 62.2 percent, respectively. In addition, each Galen employee maintained his or her options to purchase Company shares at an adjusted exercise price. The Galen options held by Humana employees and the Company options held by Galen employees expire on the earlier to occur of (a) March 1, 1995, or (b) the exercise period pursuant to the original option agreement. At December 31, 1994, there were 347,342 options held by Galen employees.

The following shares of common stock of the Company were reserved at December 31, 1994:

	Shares
Stock option plans	11,279,744
Other	992,382
	12,272,126

The Company's option plan activity for the years ended December 31, 1994, 1993 and 1992, is summarized below:

	Shares Under Option	Option Price Per Share	
Balance, January 1, 1992	3,778,941	\$ 3.88	to \$12.12
Granted	30,000	9.26	to 10.66
Exercised	(437,449)	3.88	to 6.87
Cancelled or lapsed	(27,672)	4.32	to 11.01
Balance, December 31, 1992	3,343,820	4.32	to 12.12
Granted	6,467,500	6.56	to 14.44
Exercised	(967,446)	4.32	to 11.01
Cancelled or lapsed	(324,139)	6.56	to 12.12
Balance, December 31, 1993	8,519,735	4.32	to 14.44
Granted	419,500	16.94	to 17.94
Exercised	(931,701)	4.32	to 11.01
Cancelled or lapsed	(337,333)	6.56	to 17.94
Balance, December 31, 1994	7,670,201	\$ 4.32	to \$17.94

At December 31, 1994, options for 1,304,201 shares were exercisable while 3,609,543 shares of common stock were available for future grants. In January 1995, a total of 2,496,500 additional options were granted.

As a result of current and pending state regulatory requirements, the Company must maintain various levels of equity in certain of its subsidiaries which indirectly limits the Company's ability to pay dividends. At December 31, 1994, \$150 million of equity was restricted under these regulations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Humana Inc.

9. CONTINGENCIES

The Company's Medicare risk contracts with the federal government 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 risk 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 affect on the revenues, profitability and business prospects of the Company.

During 1994, the Company's South Florida health plan (the "Plan") was denied accreditation by the National Committee for Quality Assurance ("NCQA"). In addition, the Health Care Financing Administration ("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.

During the ordinary course of business, the Company is subject to pending and threatened legal actions. In addition, for periods prior to the Spinoff, the Company assumed liability for specified claims and continues to share risks with Galen with respect to certain litigation and other contingencies, both identified and unknown, existing at the time of the Spinoff. Management of the Company does not believe that any of these actions will have a material adverse effect on its results of operations, financial position or cash flows.

The Company remains contingently liable as guarantor for approximately \$55 million of debt incurred by Humana prior to the Spinoff.

#### 10. ACQUISITIONS

During the year ended December 31, 1994, the Company acquired two health plans with approximately 201,100 members for \$181 million. During the year ended December 31, 1992, the Company acquired three health plans with approximately 80,000 members for \$38 million.

Each of the above acquisitions was accounted for by the purchase method. In connection with these acquisitions, the Company allocated the acquisition cost to tangible and identifiable intangible assets based upon their fair values. Identifiable intangible assets generally include subscriber and provider contracts. Any remaining cost not able to be allocated to tangible or identifiable intangible assets was then allocated to cost in excess of net assets acquired. Subscriber and provider contracts are amortized over their estimated useful lives (7-14 years) while cost in excess of net assets acquired is amortized over periods not exceeding 40 years.

The results of operations associated with all the previously mentioned acquisitions have been included in the accompanying consolidated statement of operations since the date of the respective acquisitions. Pro forma results of operations as if the transactions had occurred at the beginning of the year are not shown as the effect would not be material.

#### REPORT OF INDEPENDENT ACCOUNTANTS

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To the Board of Directors  
Humana Inc.

We have audited the accompanying consolidated balance sheet of Humana Inc. as of December 31, 1994 and 1993, and the related consolidated statements of operations, common 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Humana Inc. as of December 31, 1994 and 1993, and the consolidated results of operations and 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 Note 2 to the consolidated financial statements, Humana Inc. adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective December 31, 1993.

COOPERS & LYBRAND L.L.P.  
Louisville, Kentucky  
February 13, 1995

18

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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Humana Inc.

A summary of the Company's quarterly results of operations follows:

Dollars in millions except per share results	1994			
	First	Second (a)	Third	Fourth
Revenues	\$ 869	\$ 917	\$ 926	\$ 942
Income before income taxes	51	57	65	73
Net income	32	37	42	48
Earnings per common share	\$ .20	\$ .23	\$ .27	\$ .30

Dollars in millions except per share results	1993			
	First	Second	Third	Fourth
Revenues	\$ 798	\$ 795	\$ 796	\$ 806
Income before income taxes	29	30	38	46
Net income	18	19	23	29
Earnings per common share	\$ .11	\$ .12	\$ .15	\$ .18

(a) Excludes \$11 million before income tax (\$17 million or \$.10 per share, net of tax) related to the favorable settlement of income tax disputes with the Internal Revenue Service partially offset by the write-down of a nonoperational asset.



## DIRECTORS

K. FRANK AUSTEN, M.D.  
Chairperson of the Department of Rheumatology  
and Immunology,  
Brigham and Women's Hospital,  
and Professor of Medicine,  
Harvard Medical School

MICHAEL E. GELLERT  
General Partner, Windcrest Partners,  
private investment partnership

JOHN R. HALL  
Chairman of the Board  
and Chief Executive Officer,  
Ashland, Inc.

DAVID A. JONES  
Chairman of the Board and Chief  
Executive Officer, Humana Inc.

DAVID A. JONES, JR.  
Principal, Chrysalis Ventures, Inc.,  
venture capital firm

IRWIN LERNER  
Retired Chairman of the Board and  
Executive Committee,  
Hoffmann-La Roche Inc.

W. ANN REYNOLDS, PH.D.  
Chancellor - City University of  
New York

WAYNE T. SMITH  
President and Chief Operating Officer,  
Humana Inc.

## EXECUTIVE COMMITTEE

DAVID A. JONES  
Chairman

MICHAEL E. GELLERT

WAYNE T. SMITH

## AUDIT COMMITTEE

MICHAEL E. GELLERT  
Chairman

K. FRANK AUSTEN, M.D.

JOHN R. HALL

IRWIN LERNER

## COMPENSATION COMMITTEE

K. FRANK AUSTEN, M.D.  
Chairman

MICHAEL E. GELLERT

IRWIN LERNER

W. ANN REYNOLDS, PH.D.

## INVESTMENT COMMITTEE

W. ANN REYNOLDS, PH.D.  
Chairwoman

MICHAEL E. GELLERT

JOHN R. HALL

DAVID A. JONES, JR.

## NOMINATING COMMITTEE

JOHN R. HALL  
Chairman

K. FRANK AUSTEN, M.D.

DAVID A. JONES, JR.

W. ANN REYNOLDS, PH.D.

## EXECUTIVE MANAGEMENT

DAVID A. JONES  
Chairman of the Board  
and Chief Executive Officer

WAYNE T. SMITH  
President and  
Chief Operating Officer

W. LARRY CASH  
Senior Vice President - Finance and Operations

KAREN A. COUGHLIN  
Senior Vice President - Region II

W. ROGER DRURY  
Chief Financial Officer

PHILIP B. GARMON  
Senior Vice President - Region I

ARTHUR P. HIPWELL  
Senior Vice President and General Counsel

RONALD S. LANKFORD, M.D.  
Senior Vice President - Medical Affairs

## OFFICERS

JOSE G. ABREU  
Vice President - Medicare Sales

GEORGE G. BAUERNFEIND  
Vice President - Taxes

DOUGLAS R. CARLISLE  
Vice President Operations - Region I

JAMES W. DOUCETTE  
Vice President - Investments and Treasurer

ROBERT A. HERRAR  
Vice President - Human Resources

GAIL H. KNOPF  
Vice President - Information Systems

JOAN O. KROGER  
Secretary

JERRY L. MCCLELLAN  
Vice President - Financial Services

MARY M. MCKINNEY  
Vice President - Internal Audit

SHERI E. MITCHELL  
Vice President - Quality and Service Excellence

JAMES E. MURRAY  
Vice President and Controller

WALTER E. NEELY  
Vice President and Associate General Counsel

BRUCE D. PERKINS  
Vice President Operations - Region II

THOMAS D. STROUD  
Vice President - Sales and Marketing

DAVID W. WILLE  
Vice President and Chief Actuary

35

21

ADDITIONAL INFORMATION

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TRANSFER AGENT  
Bank of Louisville  
Security Transfer Department  
Post Office Box 1497  
Louisville, Kentucky 40201  
800-925-0810

FORM 10-K

Copies of Form 10-K filed with the Securities and Exchange Commission may be obtained, without charge, by writing:

Investor Relations  
Humana Inc.  
Post Office Box 1438  
Louisville, Kentucky 40201-1438

STOCK LISTING

The Company's common stock trades on the New York Stock Exchange under the symbol HUM. The following table shows the range of high and low closing sales prices as reported on the New York Stock Exchange Composite Tape beginning March 1, 1993, the date of the Spinoff.

1994	HIGH	LOW
First Quarter	22 1/8	16 7/8
Second Quarter	20 3/4	16 1/8
Third Quarter	23 5/8	16 3/8
Fourth Quarter	24 7/8	18 1/2

1993	HIGH	LOW
First Quarter	8 1/4	6 1/8

Second Quarter	12	6 5/8
Third Quarter	13 3/4	10 5/8
Fourth Quarter	18 5/8	12 5/8

CORPORATE HEADQUARTERS

Humana Inc.  
The Humana Building  
500 West Main Street  
Post Office Box 1438  
Louisville, Kentucky 40201-1438  
(502) 580-1000

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held on Thursday, May 11, 1995, in the Auditorium on the 25th floor of the Humana Building at 10:00 a.m.

## SUBSIDIARY LIST

## ALABAMA

1. Humana Health Plan of Alabama, Inc.

## ALASKA

1. Humana Health Plan of Alaska, Inc.

## ARKANSAS

1. Humana Health Plan of Arkansas, Inc.

## CALIFORNIA

1. Humana Medical Plan of California, Inc.

## DELAWARE

1. Health Value Management, Inc.
2. Humana Compensation Management Source, Inc.
3. Humana Enterprises, Inc.
4. Humana HealthChicago, Inc. - Doing Business As:
  - a. HC Services (IL)
5. Humana Inc. - Doing Business As:
  - a. H.A.C. Inc.
6. Humana Military Healthcare Services, Inc. - Doing Business As:
  - a. Humana Military Health Services, Inc. (IL)
7. Humrealty, Inc.
8. Managed Prescription Services, Inc.
9. MedBenefixx, Inc.

## FLORIDA

1. Humana Health Insurance Company of Florida, Inc.
2. Humana Health Plan of Florida, Inc.
3. Humana Medical Plan, Inc. - Doing Business As:
  - a. Advanced Orthopaedics
  - b. Apopka Health Care
  - c. Atlantic Family Practice
  - d. Casselberry Health Care
  - e. Coastal Pediatrics
  - f. Community Medical Associates
  - g. Daytona Gastroenterology
  - h. Deland Family Health Care
  - i. Edgewood Health Care
  - j. Flagler Family Practice
  - k. Internal Medicine of Daytona Beach
  - l. Palm Coast Family Health Care
  - m. Personal Care Physicians of St. Mary
  - n. Personal Care Physicians of Casselberry
  - o. Professional Dermatology
  - p. Rosemont Health Care
  - q. South Broward Neurosurgical Associates
  - r. Sugar Mill Medical Associates
  - s. Suncoast Medical Associates
  - t. Water's Edge Medical Center

## GEORGIA

1. Humana Health Plan of Georgia, Inc.

ILLINOIS

1. Humana HealthChicago Insurance Company
2. Humana Link, Inc.

KENTUCKY

1. HMPK, INC.
2. HPLAN, INC.
3. Humana Broadway Corp.
4. Humana Health Plan, Inc. - Doing Business As:
  - a. Bluegrass Family Practice
  - b. Central Kentucky Family Practice
  - c. Franklin Medical Center
  - d. Humana MedFirst
  - e. Humana Health Care Plans of Indiana (IN)
  - f. Madison Family and Industrial Medicine
5. Humana Insurance Agency, Inc.
6. Humco, Inc. - Doing Business As:
  - a. Eagle Creek Medical Plaza
  - b. Humana Hospital - Lexington

LOUISIANA

1. Humana Health Plan of Louisiana, Inc.

MARYLAND

1. Humana Health Plan of Maryland, Inc.
2. Randmark, Inc.

MICHIGAN

1. Humana Health Plan of Michigan, Inc.

MISSOURI

1. Humana Kansas City, Inc. - Doing Business As:
  - a. Humana Prime Health Plan
2. Humana Insurance Company - Doing Business As:
  - a. Managed Prescription Services (MO)
  - b. Managed Prescription Services, Inc. (NJ)

NEVADA

1. Humana Health Insurance of Nevada, Inc.

NORTH CAROLINA

1. Humana Health Plan of North Carolina, Inc.

OHIO

1. Humana Health Plan of Ohio, Inc.

PENNSYLVANIA

1. Humana Health Plan of Pennsylvania, Inc.

TEXAS

1. Humana HMO Texas, Inc.
2. Humana Health Plan of Texas, Inc. - Doing Business As:
  - a. Humana Health Plan of Corpus Christi
  - b. Humana Health Plan of Dallas
  - c. Humana Health Plan of Houston
  - d. Humana Health Plan of San Antonio
  - e. Humana Regional Service Center
  - f. MedCentre Plaza Health Center
  - g. Perrin Oaks Health Center
  - h. Val Verde Health Center
  - i. West Lakes Health Center
3. Prescription Benefits, Inc.

UTAH

1. Humana Health Plan of Utah, Inc.

VERMONT

1. Managed Care Indemnity, Inc. - Doing Business As:
  - a. Witherspoon Parking Garage (KY)

VIRGINIA

1. Humana Group Health Plan, Inc.

WASHINGTON

1. Humana Health Plan of Washington, Inc.

WISCONSIN

1. CareNetwork, Inc. - Doing Business As:
  - a. CARENETWORK
2. CNI Medical Management Corporation
3. Geneva Benefits Administration Corporation
4. Independent Care, Inc.
5. Network EPO, Inc.
6. Wisconsin Health Organization Insurance Corporation - Doing Business As:
  - a. WHOIC
  - b. WHO

## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Humana Inc. on Form S-8 (Registration 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 February 13, 1995, which includes an explanatory paragraph relating to a change in 1993 in the method of accounting for certain investments in debt and equity securities, on our audits of the consolidated financial statements and financial statement schedules of Humana Inc. as of December 31, 1994 and 1993, and for the years ended December 31, 1994, 1993, and 1992, which report is incorporated by reference in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.  
Louisville, Kentucky  
March 30, 1995

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from Humana Inc.'s Form 10-K for the Twelve Months Ended December 31, 1994, and is qualified in its entirety by reference to such financial statement.

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