UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 1994

OR

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

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

Delaware	61-0647538
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 West Main Street, Louisville, Kentucky	40202
(Address of principal executive offices)	(Zip Code)

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

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

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

YES X NO

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

Class of Common Stock	Outstanding at November 7, 1994
$.16 2/3 par value	161,264,701 shares

HUMANA INC.
FORM 10-Q
September 30, 1994

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Part I: Financial Information	

HUMANA INC.
CONSOLIDATED STATEMENT OF INCOME
For the quarters and nine months ended
September 30, 1994 and 1993
Unaudited
(Dollars in millions except per share results)

	Quarter		Nine Months	
	1994	1993	1994	1993
Revenues:				

Premiums	$ 906	$ 782	$2,656	$2,346
Interest	17	12	45	36
Other	3	2	11	7
Total revenues	926	796	2,712	2,389
Operating expenses:				
Medical costs	736	654	2,175	1,976
Selling, general and administrative	111	91	324	275
Depreciation and amortization	13	12	37	36
Unusual charge (a)			18	
Total operating expenses	860	757	2,554	2,287
Income from operations	66	39	158	102
Interest expense (a)	1	1	(26)	5
Income before income taxes	65	38	184	97
Provision for income taxes (a)	23	15	56	37
Net income (a)	$ 42	$ 23	$ 128	$ 60
Earnings per common share (a)	$ .27	$ .15	$ .80	$ .38
Shares used in earnings per share computation (000)	161,053	159,345	160,790	159,095

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(a) Results for the nine months ended September 30, 1994, include the favorable effect of the settlement of income tax disputes with the Internal Revenue Service partially offset by the write-down of a nonoperational asset. See Note B.

See accompanying notes.

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

	September 30, 1994	December 31, 1993

Assets

Current assets:		
Cash and cash equivalents	$ 466	$ 372
Marketable securities	421	427
Premiums receivable, less allowance for loss of $22 - September 30, 1994 and $17 - December 31, 1993	57	37
Deferred income taxes	56	129
Other	41	37
Total current assets	1,041	1,002
Property and equipment, net	314	300
Long-term marketable securities	497	335
Cost in excess of net tangible assets acquired	96	60
Other	61	34
Total assets	$2,009	$1,731

Liabilities and Common Stockholders' Equity

Current liabilities:		
Medical costs payable	$ 532	$ 448
Trade accounts payable and accrued expenses	209	154
Unearned premium revenues	115	110
Income taxes payable	53	59
Total current liabilities	909	771
Long-term obligations	83	71
Total liabilities	992	842
Common stockholders' equity:		
Common stock, 16 2/3 cents par; authorized 300,000,000 shares; issued and outstanding 161,235,159 shares - September 30, 1994 and 160,343,788 shares - December 31, 1993	27	27
Other	990	862
Total common stockholders' equity	1,017	889
Total liabilities and common stockholders' equity	$2,009	$1,731

See accompanying notes.

HUMANA INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30, 1994 and 1993
Unaudited
(Dollars in millions)

	1994	1993
Cash flows from operating activities:		
Net income	$ 128	$ 60

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37	36
Deferred income taxes	57	2
Unusual charge	18	
Changes in operating assets and liabilities	111	(34)
Other	2	15
Net cash provided by operating activities	353	79
Cash flows from investing activities:		
Purchase and disposition of property and equipment, net	(16)	(16)
Acquisition of health plan assets	(37)	(5)
Change in marketable securities	(177)	(262)
Other investing activities	(32)	(1)
Net cash used in investing activities	(262)	(284)
Cash flows from financing activities:		
Cash contributions from Galen		383
Other	3	(2)
Net cash provided by financing activities	3	381
Increase in cash and cash equivalents	94	176
Cash and cash equivalents at beginning of period	372	233
Cash and cash equivalents at end of period	$ 466	$ 409
Interest payments (refunds), net	$ (20)	$ 1
Income tax payments, net	1	26

See accompanying notes.

HUMANA INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

(A) Basis of Presentation

The accompanying financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in an annual report on Form 10-K. Accordingly, for further information, the reader of this Form 10-Q may wish to refer to Humana Inc.'s (the "Company") Form 10-K for the year ended December 31, 1993.

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

(B) Income Tax Settlement and Unusual Charge

During the second quarter ended June 30, 1994, the Company settled certain income tax disputes with the Internal Revenue Service (the "IRS") and reduced the net book value of a nonoperational asset to its estimated fair value. As a result of the two separate events which are more fully described below, Humana's net income for the nine months ended September 30, 1994, was increased by $17 million or $.10 per share.

Income Tax Settlement

The Company received $71 million in income tax refunds for the settlement of disputes with the IRS regarding 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 ($18 million or $.11 per share after tax) reduction of interest expense and a $10 million ($.06 per share) reduction of tax expense, both of which represented the cumulative effect from 1988 to present of amounts provided for the disputed items. The remainder of the refund reduced the deferred tax asset carried on the Company's balance sheet.

Unusual Charge

The Company reduced the net book value of a nonoperational asset to its estimated fair value. As a result, the Company recorded a pretax charge totaling $18 million ($11 million or $.07 per share after tax).

(C) Other

On August 15, 1994, the Company received notification from the National Committee for Quality Assurance ("NCQA") that its South Florida health plan (the "Plan") had been denied accreditation. The NCQA denial was based upon a site visit conducted in July 1993. In anticipation of the denial, the Company and the State of Florida (the "State") developed a corrective action process that Humana is implementing under the supervision of Florida's Agency for Health Care Administration. In addition to assisting in the development of the corrective action process, the State completed its own site visit of the Plan in August 1994.

On September 30, 1994, the Company received a letter from the Health Care Financing Administration ("HCFA") regarding its findings as a result of a separate investigation of the Plan. HCFA's findings focused primarily on the collection and use of data and indicated the Plan was not fully meeting HCFA requirements in the areas of utilization management, quality assurance and availability/accessibility. On October 31, 1994, HCFA and the Company agreed upon an implementation plan for a mutually developed corrective action process.

The Company expects no material effects on its operations as a result of the denial of accreditation by NCQA or the HCFA investigation.

(D) Subsequent Events

On October 2, 1994, the Company signed a definitive agreement to acquire all the outstanding shares of CareNetwork, Inc. ("CareNetwork") in a cash transaction valued at approximately $123 million. CareNetwork serves 86,400 members (including 24,700 Medicaid members) in Milwaukee and southeastern Wisconsin. The consummation of this transaction, which is subject to approval by CareNetwork's shareholders as well as regulatory authorities, is expected to be completed by December 31, 1994.

On October 27, 1994, the Company entered into an unsecured credit agreement with a group of banks which provides for replacing a $200 million revolving line of credit with a new $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. The Credit Agreement contains events of default identical to the prior agreement.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company offers managed health care products which integrate financing and 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 the use of utilization controls such as pre-admission approval for hospital inpatient services and pre-authorization of outpatient surgical procedures.

The HMO and PPO products of Humana are primarily marketed to employer and other groups ("Commercial") and Medicare-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").

Results of Operations

Third Quarter Ended September 30, 1994 and 1993

The Company's premium revenues increased 16 percent to $906 million for the quarter ended September 30, 1994, compared to $782 million for the same period in 1993. The increase in premium revenues is attributable to same-store Commercial and Medicare risk membership gains, premium rate increases of 3.0 percent for the Commercial product and 3.9 percent for the Medicare risk product and the February 28, 1994 acquisition of Group Health Association ("GHA"). GHA premium revenues during the third quarter of 1994 totaled approximately $50 million.

Same-store Commercial and Medicare risk membership gains for the quarter ended September 30, 1994, were 25,900 and 5,200, respectively and compare favorably to the membership gains of 12,700 and 200 respectively, in the same period a year ago. For all of 1994, the Company anticipates that same-store Commercial and Medicare risk membership gains will range between 8 and 9 percent. Medicare supplement membership declined during the quarter ended September 30, 1994, continuing the decline which resulted from management's decision to increase premiums to more closely approximate competitive levels and to close certain markets.

The medical loss ratio for the quarter ended September 30, 1994, was 81.3 percent compared to 83.7 percent for the same period in 1993. The improvement was primarily due to decreased hospital utilization in both the Commercial and Medicare risk products and a modest reduction in the Medicare risk product's rate of growth for physician and other medical services costs. Patient days per thousand members for the quarter ended September 30, 1994, decreased 2 percent from the same period a year ago to 259 days per thousand for the Commercial product and 7 percent to 1,341 days per thousand for the Medicare risk product. Additional improvements in hospital and other medical services costs are necessary to achieve further reductions in the medical loss ratio since premium rate increases in both the Commercial and Medicare risk products are expected to approximate 3 percent for the remainder of 1994.

The administrative cost ratio was 13.7 percent and 13.1 percent for the quarters ended September 30, 1994 and 1993, respectively. The increase is the result of additional spending for increased marketing efforts, costs associated with the integration of GHA, and the expansion of market service areas.

Interest income totaled $17 million and $12 million for the quarters ended September 30, 1994 and 1993, respectively. The increase in interest income is primarily attributable to increased levels of cash, cash equivalents and marketable securities as well as higher yields in the third quarter of 1994 compared to the same period in the prior year.

The Company's income before income taxes totaled $65 million for the quarter ended September 30, 1994, compared to $38 million for the same period in 1993. Net income was $42 million or $.27 per share compared to $23 million or $.15 per share for the quarters ended September 30, 1994 and 1993, respectively.

Nine Months Ended September 30, 1994 and 1993

The Company's premium revenues increased 13 percent to $2.7 billion for the nine months ended September 30, 1994 compared to $2.3 billion for the same period in 1993. The increase in premium revenues is attributable to same-store Commercial and Medicare risk membership gains of 113,400, premium rate increases of 3.5 percent for the Commercial product and 3.9 percent for the Medicare risk product, and the acquisition of GHA. GHA premium revenues, since the February 28, 1994, acquisition totaled approximately $116 million.

On a same-store basis, Commercial membership increased 82,900 during the nine months ended September 30, 1994, compared to a decrease of 11,900 for the nine months ended September 30, 1993. During this same period, Medicare risk membership increased 15,600 compared to an increase of 2,100 members in the same period a year ago. Medicare supplement membership declined during the nine months ended September 30, 1994, continuing the decline which resulted from management's decision to increase premiums to more closely approximate competitive levels and to close certain markets.

The medical loss ratio for the nine months ended September 30, 1994, was 81.9 percent compared to 84.2 percent for the same period in 1993. The reduction was primarily attributable to continued improvement in hospital utilization in both the Commercial and Medicare risk products. Patient days per thousand members for the nine months ended September 30, 1994, decreased 4 percent from the same period a year ago to 272 days per thousand for the Commercial product and 8 percent to 1,433 days per thousand for the Medicare risk product. Additional improvements in hospital and other medical services costs are necessary to achieve further reductions in the medical loss ratio since premium rate increases in both the Commercial and Medicare risk products are expected to approximate 3 percent for the remainder of 1994.

The administrative cost ratio was 13.6 percent and 13.2 percent for the nine months ended September 30, 1994 and 1993, respectively. The increase is a result of additional spending for increased marketing efforts, costs associated with the integration of GHA, and the expansion of market service areas.

Interest income totaled $45 million and $36 million for the nine months ended September 30, 1994 and 1993, respectively. The increase in interest income is primarily attributable to increased levels of cash, cash equivalents and marketable securities.

The Company's income before income taxes totaled $184 million for the nine months ended September 30, 1994 compared to $97 million for the nine months ended September 30, 1993. Income before income taxes for 1994 includes $29 million related to the favorable settlement of tax disputes with the IRS and an $18 million charge related to the write-down of a nonoperational asset. Net income increased to $128 million or $.80 per share from $60 million or $.38 per share for the nine months ended September 30, 1994 and 1993, respectively. Included in net income for the nine months ended September 30, 1994, is $17 million or $.10 per share related to the nonrecurring items described above.

Liquidity

Cash provided by the Company's operations totaled $353 million and $79 million for the nine months ended September 30, 1994 and 1993, respectively. The timing of the receipt of Medicare risk premiums increased cash provided by operations by $5 million for the nine months ended September 30, 1994, and reduced cash provided by operations by $102 million for the nine months ended September 30, 1993. Excluding the effect of the timing of Medicare risk premiums, cash provided by operations was $348 million and $181 million for the nine months ended September 30, 1994 and 1993, respectively. The increase in cash provided by operations was primarily attributable to increased net income, the settlement of the tax disputes with the IRS, and the timing of payments for medical costs and other payables.

The Company's current assets exceeded current liabilities by $132 million and $231 million at September 30, 1994 and December 31, 1993, respectively. The reduction in net working capital is primarily attributable to Humana's policy of classifying unrestricted cash, cash equivalents and marketable securities as long-term to conform with their intended use.

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 September 30, 1994, the Company had approximately $390 million of unrestricted cash, cash equivalents and marketable securities ($123 million of which will be used to acquire CareNetwork).

Management believes that existing working capital, including the aforementioned unrestricted funds, future operating cash flows and the availability of a $350 million line of credit are sufficient to meet 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.

Excluding acquisitions, planned capital spending in 1994 will approximate $45 million compared to $28 million in 1993. The increase in 1994 capital spending relates primarily to the refurbishing and equipping of the Company's staff model primary care facilities, including those located in Washington D.C. Management believes that its capital spending program is adequate to expand, improve and equip its existing business.

Other Information

The Company provides medical services to Medicare risk members under contracts with the Health Care Financing Administration ("HCFA") that are renewed for a one-year term each December 31 unless terminated 90 days prior thereto. The loss of these contracts or significant changes in the program, 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. The Company's January 1, 1995 average rate of increase (weighted average for the members and markets served) under these contracts will be 6.3 percent.

The Company's South Florida health plan (the "Plan") was denied accreditation by the National Committee for Quality Assurance ("NCQA"). In addition, HCFA delivered a letter regarding its separate investigation of the Plan which indicated 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 these regulatory agencies to resolve the issues identified and expects no material effects on its operations as a result of the NCQA denial or HCFA investigation.

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 financial position or results of operations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

	1994	1993
Commercial members enrolled at:		
March 31	1,381,100	1,196,000
June 30	1,386,100	1,195,200
September 30	1,408,800	1,201,500
December 31		1,214,000
Medicare risk members enrolled at:		
March 31	276,600	268,600
June 30	281,200	268,200
September 30	286,400	268,400
December 31		270,800
Medicare supplement members enrolled at:		
March 31	144,100	178,600
June 30	139,000	168,000
September 30	134,700	161,100
December 31		153,600
Commercial self-funded members at:		
March 31	75,500	70,300
June 30	81,300	67,600
September 30	79,100	62,900
December 31		63,700
Total members enrolled at:		
March 31	1,877,300	1,713,500
June 30	1,887,600	1,699,000
September 30	1,909,000	1,693,900
December 31		1,702,100

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Supplemental Consolidated Statement of Income
(Dollars in millions except per share results)

	1994			
	First	Second	Third	Total
Premiums:				
Commercial	$ 480	$ 518	$ 521	$1,519

Medicare risk	342	350	357	1,049
Medicare supplement	31	29	28	88
	853	897	906	2,656
Interest	13	15	17	45
Other	3	5	3	11
	869	917	926	2,712
Medical costs	703	736	736	2,175
Selling, general and administrative	102	111	111	324
Depreciation and amortization	12	12	13	37
	817	859	860	2,536
Income from operations	52	58	66	176
Interest expense	1	1	1	3
Pretax income	51	57	65	173
Provision for income taxes	19	20	23	62
Net income	$ 32	$ 37	$ 42	$ 111
Earnings per share	$ .20	$ .23	$ .27	$ .70
Medical loss ratio	82.4%	81.9%	81.3%	81.9%
Administrative cost ratio	13.4%	13.6%	13.7%	13.6%

Note: Second quarter and the nine-month results exclude the impact of the favorable settlement of tax disputes with the Internal Revenue Service and the write-down of a nonoperational asset.

Supplemental Consolidated Statement of Income
(Dollars in millions except per share results)

	1993				
	First	Second	Third	Fourth	Total
Premiums:					
Commercial	$ 426	$ 422	$ 428	$ 433	$ 1,709
Medicare risk	323	323	322	328	1,296
Medicare supplement	37	33	32	30	132

	786	778	782	791	3,137
Interest	10	14	12	12	48
Other	2	3	2	3	10
	798	795	796	806	3,195
Medical costs	662	660	654	654	2,630
Selling, general and administrative	93	91	91	93	368
Depreciation and amortization	12	12	12	11	47
	767	763	757	758	3,045
Income from operations	31	32	39	48	150
Interest expense	2	2	1	2	7
Pretax income	29	30	38	46	143
Provision for income taxes	11	11	15	17	54
Net income	$ 18	$ 19	$ 23	$ 29	$ 89
Earnings per share	$ .11	$ .12	$ .15	$ .18	$ .56
Medical loss ratio	84.3%	84.8%	83.7%	82.7%	83.8%
Administrative cost ratio	13.4%	13.1%	13.1%	13.3%	13.2%

Part II: Other Information

Items 1 - 4:

None

Item 5: Other Information

(a) Ratio of Earnings to Fixed Charges

The Company's ratio of earnings to fixed charges was 27.2 and 14.3 for the third quarters ended September 30, 1994 and 1993, respectively, and 24.6 and 12.9 for the nine months ended September 30, 1994 and 1993, respectively.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

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

Exhibit 27 - Financial Data Schedule

(b) No reports on Form 8-K have been filed during the quarter ended September 30, 1994.

Signatures

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

HUMANA INC.

Date: /s/ James E. Murray

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

Date: /s/ Arthur P. Hipwell

Arthur P. Hipwell
Senior Vice President and
General Counsel

Exhibit 12

HUMANA INC.
RATIO OF EARNINGS TO FIXED CHARGES
For the quarters and nine months ended September 30, 1994 and 1993

	Quarter Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
Ratio of earnings to fixed charges	27.2	14.3	24.6	12.9

For the purpose of determining earnings in the calculation of the ratio of earnings to fixed charges (the "Ratio"), earnings have been increased by the provision for income taxes and fixed charges. Fixed charges consist of interest expense on borrowings and one-third (the proportion deemed representative of the interest portion) of rents. For purposes of calculating the Ratio, earnings and interest expense for the nine months ended September 30, 1994, exclude the impact of nonrecurring items related to the second quarter favorable settlement of tax disputes with the Internal Revenue Service and the write-down of a nonoperational asset.

<ARTICLE> 5
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This schedule contains summary financial information extracted from Humana Inc.'s Form 10-Q for the Nine Months Ended September 30, 1994, and is qualified in its entirety by reference to such financial statement.
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