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**news release**

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## Humana Reports First Quarter 2003 Results

LOUISVILLE, KY (April 28, 2003) – Humana Inc. (NYSE: HUM) today reported results for the first quarter ended March 31, 2003 and comparative amounts for the quarter ended March 31, 2002 as follows:

	<b><u>1Q03 GAAP<sup>1</sup></u></b>	<b><u>1Q02 GAAP<sup>1</sup></u></b>	<b><u>1Q03 Adjusted<sup>2</sup></u></b>
Earnings per diluted share	\$ .19	\$ .28	\$ .31
Net income (in thousands)	\$ 31,230	\$ 46,770	\$ 50,024
Pretax margin	1.6%	2.5%	2.7%

(See "Footnote Definitions" section of this press release.)

Driven by improved adjusted earnings in the company's Commercial segment, first quarter 2003 adjusted earnings per diluted share of \$.31 increased 11 percent compared to the same period in the prior year. Adjusted net income for the first quarter improved 7

percent compared to that for the same period in the prior year. The adjusted pretax margin of 2.7 percent increased 20 basis points from the first quarter of 2002.

"Our adjusted Commercial segment pretax earnings for the first quarter exceeded those for all of 2002. We believe this is a clear demonstration of our growing ability to improve Commercial profitability," said Michael B. McCallister, chief executive officer. "Humana's innovative products and rigorous operating discipline, supported by streamlining of administrative expenses, should result in a substantial improvement in our Commercial segment results for 2003. Our Government segment profitability complemented the Commercial segment improvement in the quarter."

### **Restructuring Charge**

During the first quarter of 2003, the company recorded the following items that were not reflective of the run-rate operations of the company. These adjustments, which are reflected in the restructuring charge line in the Statement of Income, were described initially in the company's press release, dated December 5, 2002, and again in the company's Form 10-K for the year ended December 31, 2002. Management believes this restructuring charge should be excluded to properly reflect the run-rate operations of the company and to provide better comparability to prior year results.

<i>(in thousands, except per share amounts)</i>	<b><u>Pretax Impact</u></b>	<b><u>After-tax Impact</u></b>	<b><u>Earnings per diluted share Impact</u></b>
Building and equipment writedown	\$ (17,233)	\$ (10,529)	\$ (.07)
Software abandonment	(13,527)	(8,265)	(.05)
<b>Total restructuring charge</b>	<b>\$ (30,760)</b>	<b>\$ (18,794)</b>	<b>\$ (.12)</b>

*(See "Footnote Definitions" section of this press release.)*

## **Segment Results**

Pretax results and margins for the company's business segments for the quarters ended March 31, 2003 and 2002 were as follows:

<b><u>Pretax income</u></b> <i>(in thousands)</i>	<b><u>1Q03</u></b> <b><u>GAAP<sup>1</sup></u></b>	<b><u>1Q02</u></b> <b><u>GAAP<sup>1</sup></u></b>	<b><u>1Q03</u></b> <b><u>Adjusted<sup>2</sup></u></b>
Commercial segment	\$ 37,239	\$ 26,095	\$ 55,091
Government segment	\$ 10,163	\$ 42,684	\$ 23,071
Consolidated	\$ 47,402	\$ 68,779	\$ 78,162

*(See "Footnote Definitions" section of this press release.)*

<b><u>Pretax margins</u></b>	<b><u>1Q03</u></b> <b><u>GAAP<sup>1</sup></u></b>	<b><u>1Q02</u></b> <b><u>GAAP<sup>1</sup></u></b>	<b><u>1Q03</u></b> <b><u>Adjusted<sup>2</sup></u></b>
Commercial segment	2.2%	1.8%	3.3%
Government segment	0.8%	3.4%	1.8%
Consolidated	1.6%	2.5%	2.7%

*(See "Footnote Definitions" section of this press release.)*

## **Revenues and Membership**

Consolidated revenues and membership for the quarters ended March 31, 2003 and 2002 were as follows:

<b><u>Consolidated</u></b> <i>(in thousands)</i>	<b><u>1Q03</u></b> <b><u>GAAP<sup>1</sup></u></b>	<b><u>1Q02</u></b> <b><u>GAAP<sup>1</sup></u></b>
First quarter - total revenues	\$ 2,931,716	\$ 2,732,582
Ending medical membership	6,625.2	6,534.9

*(See "Footnote Definitions" section of this press release.)*

Commercial segment premiums and administrative services fees and membership for the quarters ended March 31, 2003 and 2002 were as follows:

<b><u>Commercial Segment</u></b>	<b><u>1Q03 GAAP<sup>1</sup></u></b>	<b><u>1Q02 GAAP<sup>1</sup></u></b>
<i>(in thousands)</i>		
Premiums	<b>\$ 1,615,556</b>	\$ 1,425,988
Administrative services fees	<b>\$ 29,590</b>	\$ 25,147
Total premiums and administrative services fees	<b>\$ 1,645,146</b>	\$ 1,451,135
Ending medical membership	<b>3,003.4</b>	2,954.2

*(See "Footnote Definitions" section of this press release.)*

Commercial segment medical membership grew by 2 percent from March 31, 2002 to March 31, 2003. Commercial premium yields were within the 13 to 15 percent range for first quarter of 2003. These factors contributed to a year-over-year increase in total premiums and administrative services fees for the Commercial segment of 13 percent for the first quarter 2003.

Government segment premiums and administrative services fees and membership for the first quarter ended March 31, 2003 were as follows:

<b><u>Government Segment</u></b>	<b><u>1Q03 GAAP<sup>1</sup></u></b>	<b><u>1Q02 GAAP<sup>1</sup></u></b>
<i>(in thousands)</i>		
Premiums	<b>\$ 1,227,393</b>	\$ 1,215,824
Administrative services fees	<b>\$ 31,546</b>	\$ 39,866
Total premiums and administrative services fees	<b>\$ 1,258,939</b>	\$ 1,255,690
Ending medical membership	<b>3,621.8</b>	3,580.7

*(See "Footnote Definitions" section of this press release.)*

Government segment premiums and administrative services fees were essentially unchanged year-over-year for the first quarter of 2003.

Medicare+Choice membership totaled 327,100 at March 31, 2003, a decline of 36,600 members year over year. Medicare+Choice premium yields for the first quarter were within the 4 to 6 percent range.

TRICARE's insured membership totaled 1,752,500 at March 31, 2003, approximately 1 percent higher than the March 31, 2002 level. TRICARE ASO membership was 1,050,800 at the end of the first quarter of 2003, up approximately 5 percent year over year. TRICARE premium revenues and administrative services fees increased year-over-year by 6 percent during the first quarter of 2003. These increases in TRICARE revenues primarily are attributable to Congressionally legislated benefit changes, an increase in eligible beneficiaries, and a decrease in the use of military treatment facilities.

Medicaid membership of 491,400 at March 31, 2003 grew by approximately 3 percent from March 31, 2002. Approximately 85 percent of the company's Medicaid membership is in Puerto Rico.

### **Medical and SG&A Expenses**

The company's medical expense ratio (medical expenses as a percent of premiums) and selling, general and administrative ("SG&A") expense ratio (SG&A expenses as a percent of premiums and administrative services fees) for the quarters ended March 31, 2003 and 2002 were as follows:

	<b><u>1Q03</u></b>	<b><u>1Q02</u></b>
Medical expense ratio – GAAP <sup>1</sup>	<b>83.4%</b>	83.1%
SG&A expense ratio – GAAP <sup>1</sup>	<b>15.4%</b>	16.1%

*(See "Footnote Definitions" section of this press release.)*

### **Cash flows from operations**

Cash flows provided by (used in) operations for the quarters ended March 31, 2003 and 2002 were as follows:

	<b><u>1Q03</u></b>	<b><u>1Q02</u></b>
<i>(in thousands)</i>		
GAAP <sup>1</sup>	\$ (108,230)	\$ (140,137)
Normalized <sup>3</sup>	\$ 97,525	\$ 76,491

*(See "Footnote Definitions" section of this press release.)*

### **Share Repurchase Program**

In July 2002, the company announced a \$100 million share repurchase program. As of March 31, 2003, 8.6 million shares had been repurchased for an aggregate purchase price of \$94.9 million, an average price of \$10.98 per share.

## Guidance

The company offered the following earnings guidance points for the investor community:

<b>For the Full Year 2003:</b>	<b><u>Projected</u></b>
Earnings per diluted share – GAAP <sup>1</sup>	<b>\$1.25 - \$1.31</b>
Earnings per diluted share – Adjusted <sup>2</sup>	<b>\$1.37 - \$1.43</b>
Consolidated revenues – GAAP <sup>1</sup>	<b>Over \$12 billion</b>
Commercial segment pretax income – GAAP <sup>1</sup>	<b>At least \$102 million</b>
Commercial segment pretax income – Adjusted <sup>2</sup>	<b>At least \$120 million</b>
Commercial segment medical membership (fully insured and ASO combined)	<b>Organic growth of 2 - 4%</b>
Commercial premium yields	<b>13 - 15%</b>
Commercial medical cost trends	<b>12 - 14%</b>
Commercial segment SG&A expense ratio – GAAP <sup>1</sup>	<b>16.3 – 16.5%</b>
Medicare+Choice membership	<b>310,000 to 320,000 by year end</b>
Medicare+Choice premium yields	<b>4 - 6%</b>
Medicare+Choice medical cost trends	<b>4 - 6%</b>
Government segment SG&A expense ratio – GAAP <sup>1</sup>	<b>Flat year over year</b>
TRICARE pretax margin	<b>2 – 3%</b>
Cash flows from operations – GAAP <sup>1</sup> and Normalized <sup>3</sup>	<b>\$340 million to \$360 million</b>
Capital expenditures	<b>Approximately \$105 million</b>
Effective tax rate	<b>36%</b>

<b>For the Second Quarter of 2003:</b>	<b><u>Projected</u></b>
Earnings per diluted share – GAAP <sup>1</sup>	<b>\$.28 - \$.29</b>

(See “Footnote Definitions” section of this press release.)

## **Footnote Definitions**

*1 – Generally Accepted Accounting Principles (“GAAP”)*

*2 - Adjusted results exclude from GAAP results the impact of the restructuring charge recorded during the first quarter of 2003. The statistics pages at the end of this press release provide a reconciliation of GAAP to adjusted results for the first quarter of 2003. The detail of the adjustments also is described in the “Restructuring Charge” section of this press release.*

*3 - Normalized cash flows from operations give effect to the usual adjustment for the timing of the receipt of the Medicare+Choice premium payment from the Centers for Medicare and Medicaid Services (“CMS”). The fixed monthly payment from CMS is payable to Humana on the first day of each month. However, if the first of the month falls on a weekend or a holiday, the company receives that payment early, often resulting in a significant impact on cash flows from operations. The statistics pages at the end of this press release provide a reconciliation of GAAP to normalized cash flows from operations.*

## **Conference Call**

Humana will host a conference call, as well as a virtual slide presentation, at 9:00 a.m. EDT today to discuss its financial results for the quarter and earnings guidance.

All parties interested in the audio only portion of the conference call are invited to dial 888-625-7430. No password is required. The company suggests participants dial in approximately ten minutes in advance of the call.

A live virtual presentation (audio with slides) will be available and may be accessed via Humana’s Investor Relations page at [www.humana.com](http://www.humana.com). The company suggests web participants sign on approximately 15 minutes in advance of the call. The company also suggests web participants visit the site well in advance of the call to run a system test and to download any free software needed to view the presentation.

For those unable to participate in the live event, the virtual presentation archive will be available in the Presentations section of the Investor Relations page at [www.humana.com](http://www.humana.com),



approximately two hours following the live web cast. An audio recording of the conference call will also be available in the Audio Archives located on the Investor Relations page at [www.humana.com](http://www.humana.com) approximately two hours after the live call.

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*This news release contains forward-looking statements. The forward-looking statements made in this news release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be significantly impacted by certain risks and uncertainties described in Humana's Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission.*

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Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded health benefits companies, with approximately 6.6 million medical members located primarily in 18 states and Puerto Rico. Humana offers coordinated health insurance coverage and related services – through traditional and Internet based plans – to employer groups, government-sponsored plans, and individuals.

More information regarding Humana is available via the Internet at [www.humana.com](http://www.humana.com), including on-line:

- ◆ Copies of annual reports to stockholders;
- ◆ Copies of Securities and Exchange Commission filings;
- ◆ Copy of most recent investor presentation;
- ◆ Copies of quarterly earnings press releases;
- ◆ Audio archive of the most recent earnings release conference call;
- ◆ Calendar of events (includes upcoming earnings conference call dates, related conference call access number, and planned participation in investor conferences).

In thousands

Ending Medical Membership	March 31,		Difference	Percent Change
	2003	2002		
Commercial:				
Fully insured	2,348.8	2,332.4	16.4	0.7
ASO	654.6	621.8	32.8	5.3
<b>Total Commercial</b>	<b>3,003.4</b>	<b>2,954.2</b>	<b>49.2</b>	<b>1.7</b>
Government:				
Medicare+Choice	327.1	363.7	(36.6)	(10.1)
Medicaid	491.4	476.8	14.6	3.1
TRICARE	1,752.5	1,742.3	10.2	0.6
TRICARE ASO	1,050.8	997.9	52.9	5.3
<b>Total Government</b>	<b>3,621.8</b>	<b>3,580.7</b>	<b>41.1</b>	<b>1.1</b>
<b>Total ending medical membership</b>	<b>6,625.2</b>	<b>6,534.9</b>	<b>90.3</b>	<b>1.4</b>

Ending Specialty Membership	March 31,		Difference	Percent Change
	2003	2002		
Commercial:				
Dental-fully insured	741.7	786.8	(45.1)	(5.7)
Dental-ASO	367.9	306.5	61.4	20.0
<b>Total Dental</b>	<b>1,109.6</b>	<b>1,093.3</b>	<b>16.3</b>	<b>1.5</b>
Group life	519.0	542.1	(23.1)	(4.3)
Short-term disability	21.5	23.9	(2.4)	(10.0)
<b>Total ending specialty membership</b>	<b>1,650.1</b>	<b>1,659.3</b>	<b>(9.2)</b>	<b>(0.6)</b>

Premiums	Three months ended March 31,	
	2003	2002
Commercial:		
Fully insured medical	\$ 1,536,953	\$ 1,343,261
Specialty	78,603	82,727
<b>Total Commercial</b>	<b>1,615,556</b>	<b>1,425,988</b>
Government:		
Medicare+Choice	635,842	672,186
Medicaid	121,230	111,253
TRICARE	470,321	432,385
<b>Total Government</b>	<b>1,227,393</b>	<b>1,215,824</b>
<b>Total premiums</b>	<b>\$ 2,842,949</b>	<b>\$ 2,641,812</b>

Administrative services fees	Three months ended March 31,	
	2003	2002
Commercial	\$ 29,590	\$ 25,147
Government	31,546	39,866
<b>Total Administrative services fees</b>	<b>\$ 61,136</b>	<b>\$ 65,013</b>

Dollars in thousands, except per share results

-----Three months ended-----

<b>Consolidated Statements of Income</b>	<b>March 31, 2003</b>	<b>Restructuring Charge</b>	<b>Adjusted March 31, 2003</b>	<b>March 31, 2002</b>
<b>Revenues:</b>				
Premiums	\$ 2,842,949	\$ -	\$ 2,842,949	\$ 2,641,812
Administrative services fees	61,136	-	61,136	65,013
Investment income	25,817	-	25,817	24,308
Other income	1,814	-	1,814	1,449
<b>Total revenues</b>	<b>2,931,716</b>	<b>-</b>	<b>2,931,716</b>	<b>2,732,582</b>
<b>Operating expenses:</b>				
Medical	2,371,434	-	2,371,434	2,194,539
Selling, general and administrative	447,045	-	447,045	435,064
Depreciation	27,209	-	27,209	25,865
Other intangible amortization	3,931	-	3,931	3,931
Restructuring charge	30,760	(30,760)	-	-
<b>Total operating expenses</b>	<b>2,880,379</b>	<b>(30,760)</b>	<b>2,849,619</b>	<b>2,659,399</b>
Income from operations	51,337	30,760	82,097	73,183
Interest expense	3,935	-	3,935	4,404
Income before income taxes	47,402	30,760	78,162	68,779
Provision for income taxes	16,172	11,966	28,138	22,009
<b>Net income</b>	<b>\$ 31,230</b>	<b>\$ 18,794</b>	<b>\$ 50,024</b>	<b>\$ 46,770</b>

Basic earnings per common share	\$ 0.20	\$ 0.12	\$ 0.32	\$ 0.28
Diluted earnings per common share	\$ 0.19	\$ 0.12	\$ 0.31	\$ 0.28

Shares used in basic earnings per common share computation (000)	157,739	157,739	157,739	164,255
Shares used in diluted earnings per common share computation (000)	161,406	161,406	161,406	167,704

**Key Ratios**

<b>Medical expense ratio</b>				
Commercial	81.3%	-	81.3%	81.9%
Government	86.2%	-	86.2%	84.5%
<b>Total</b>	<b>83.4%</b>	<b>-</b>	<b>83.4%</b>	<b>83.1%</b>

<b>Selling, general, and administrative expense ratio</b>				
Commercial	16.8%	-	16.8%	17.6%
Government	13.6%	-	13.6%	14.3%
<b>Total</b>	<b>15.4%</b>	<b>-</b>	<b>15.4%</b>	<b>16.1%</b>

Dollars in thousands, except per share results

-----Three months ended-----

<b>Operating Results by Segment</b>	<b>March 31, 2003</b>	<b>Restructuring Charge</b>	<b>Adjusted March 31, 2003</b>	<b>March 31, 2002</b>
<b>Commercial:</b>				
<b>Income before income taxes</b>	\$ 37,239	\$ 17,852	\$ 55,091	\$ 26,095
Interest expense	3,063	-	3,063	3,059
Depreciation and amortization	19,228	-	19,228	17,167
Commercial EBITDA*	59,530	17,852	77,382	46,321
<b>Government:</b>				
<b>Income before income taxes</b>	<b>10,163</b>	<b>12,908</b>	<b>23,071</b>	<b>42,684</b>
Interest expense	872	-	872	1,345
Depreciation and amortization	11,912	-	11,912	12,629
Government EBITDA*	22,947	12,908	35,855	56,658
<b>Consolidated:</b>				
<b>Income before income taxes</b>	<b>47,402</b>	<b>30,760</b>	<b>78,162</b>	<b>68,779</b>
Interest expense	3,935	-	3,935	4,404
Depreciation and amortization	31,140	-	31,140	29,796
Consolidated EBITDA*	\$ 82,477	\$ 30,760	\$ 113,237	\$ 102,979

\* EBITDA represents earnings (including investment and other income) before interest expense, income taxes, depreciation and amortization. EBITDA is not a measure under accounting principles generally accepted in the United States and may not be similar to EBITDA measures of other companies. EBITDA also is a measure commonly used by analysts, investors, and other interested parties in the health care industry. We believe EBITDA is an important indicator of the cash content of the Company's operating income, and as such the quality of net income.

Dollars in thousands, except per share results

<b>Consolidated Balance Sheets</b>	<b>March 31, 2003</b>	<b>December 31, 2002</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 532,652	\$ 721,357
Investment securities	1,411,356	1,405,833
Receivables, net:		
Premiums	472,972	348,562
Administrative services fees	55,726	68,316
Other	258,481	250,857
<b>Total current assets</b>	<b>2,731,187</b>	<b>2,794,925</b>
Property and equipment, net	423,465	459,842
Other assets:		
Long-term investment securities	312,517	288,724
Goodwill	776,874	776,874
Other	185,144	279,665
<b>Total other assets</b>	<b>1,274,535</b>	<b>1,345,263</b>
<b>Total assets</b>	<b>\$ 4,429,187</b>	<b>\$ 4,600,030</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Medical and other expenses payable	\$ 1,226,043	\$ 1,142,131
Trade accounts payable and accrued expenses	512,723	552,689
Book overdraft	84,579	94,882
Unearned premium revenues	117,604	335,757
Short-term debt	265,000	265,000
<b>Total current liabilities</b>	<b>2,205,949</b>	<b>2,390,459</b>
Long-term debt	334,328	339,913
Other long-term liabilities	268,131	263,184
<b>Total liabilities</b>	<b>2,808,408</b>	<b>2,993,556</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par; 10,000,000 shares authorized; none issued	-	-
Common stock, \$0.16 2/3 par; 300,000,000 shares authorized; 171,371,759 shares issued at March 31, 2003 and 171,334,893 shares issued at December 31, 2002	28,562	28,556
Capital in excess of par value	931,460	931,089
Retained earnings	752,107	720,877
Accumulated other comprehensive income	23,257	22,455
Unearned restricted stock compensation	(3,961)	(6,516)
Treasury stock, at cost, 10,584,719 shares at March 31, 2003 and 8,362,537 shares at December 31, 2002	(110,646)	(89,987)
<b>Total stockholders' equity</b>	<b>1,620,779</b>	<b>1,606,474</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,429,187</b>	<b>\$ 4,600,030</b>
<b>Debt to total capitalization ratio</b>	<b>27.0%</b>	<b>27.4%</b>

Dollars in thousands

<b>Consolidated Statements of Cash Flows</b>	<b>Three months ended</b>	
	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 31,230	\$ 46,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash restructuring charge	30,760	-
Depreciation and amortization	31,140	29,796
Provision for deferred income taxes	3,646	12,880
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:		
Receivables	(48,553)	(45,810)
Other assets	5,685	(2,398)
Medical and other expenses payable	83,912	63,977
Other liabilities	(29,012)	(10,804)
Unearned premium revenues	(218,153)	(237,758)
Other	1,115	3,210
Net cash used in operating activities	(108,230)	(140,137)
Timing of Medicare+Choice premium payment from CMS	205,755	216,628
Normalized net cash provided by operating activities	97,525	76,491
<b>Cash flows from investing activities</b>		
Purchases of property and equipment, net	(21,634)	(31,256)
Purchases of marketable securities	(1,545,241)	(425,135)
Proceeds from maturities of marketable securities	196,923	115,954
Proceeds from sales of marketable securities	1,320,246	303,896
Net cash used in investing activities	(49,706)	(36,541)
<b>Cash flows from financing activities</b>		
Debt issue costs	(153)	(559)
Change in book overdraft	(10,303)	10,673
Common stock repurchases	(20,817)	-
Other	504	1,026
Net cash (used in) provided by financing activities	(30,769)	11,140
Decrease in cash and cash equivalents	(188,705)	(165,538)
Cash and cash equivalents at beginning of period	721,357	651,420
Cash and cash equivalents at end of period	\$ 532,652	\$ 485,882

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**Percentage of Ending Membership Under Capitation Arrangements**


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	Commercial Segment			Government Segment				Consol. Total Medical	
	Fully	ASO	Total	Medicare+	Medicaid	TRICARE	TRICARE		Total
	Insured		Segment						
<b>March 31, 2003</b>									
Capitated HMO									
hospital system based <i>A</i>	6.3%	-	4.9%	12.9%	2.5%	-	-	1.5%	3.0%
Capitated HMO									
physician group based <i>A</i>	3.2%	-	2.5%	2.0%	56.2%	-	-	7.8%	5.4%
Risk-sharing <i>B</i>	3.1%	-	2.4%	47.8%	33.9%	-	-	8.9%	6.0%
All other membership	87.4%	100.0%	90.2%	37.3%	7.4%	100.0%	100.0%	81.8%	85.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>March 31, 2002</b>									
Capitated HMO									
hospital system based <i>A</i>	6.7%	-	5.3%	13.3%	2.2%	-	-	1.6%	3.3%
Capitated HMO									
physician group based <i>A</i>	4.1%	-	3.2%	4.1%	57.6%	-	-	8.1%	5.9%
Risk-sharing <i>B</i>	3.2%	-	2.5%	45.7%	34.3%	-	-	9.2%	6.2%
All other membership	86.0%	100.0%	89.0%	36.9%	5.9%	100.0%	100.0%	81.1%	84.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- A** In a limited number of circumstances, we contract with hospitals and physicians to accept financial risk for a defined set of HMO membership. In transferring this risk, we prepay these providers a monthly fixed-fee per member to coordinate substantially all of the medical care for their capitated HMO membership, including some health benefit administrative functions and claims processing. For these capitated HMO arrangements, we generally agree to reimbursement rates that target a medical expense ratio ranging from 82% to 89%. Providers participating in hospital-based capitated HMO arrangements generally receive a monthly payment for all of the services within their system for their HMO membership. Providers participating in physician-based capitated HMO arrangements generally have subcontracted directly with hospitals and specialist physicians, and are responsible for reimbursing such hospitals and physicians for services rendered to their HMO membership.
- B** In some circumstances, we contract with physicians under risk-sharing arrangements whereby physicians have assumed some level of risk for all or a portion of the medical costs of their HMO membership. Although these arrangements do include capitation payments for services rendered, we process substantially all of the claims under these arrangements.

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**Medical Claim Reserves - Details and Statistics**


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**Change in medical and other expenses payable:**

The change in medical and other expenses payable is summarized as follows:

	<b>For the Three Months Ended March 31, 2003</b>	<b>For the Twelve Months Ended December 31, 2002</b>
Balances at January 1	\$ 1,142,131	\$ 1,086,386
Incurred related to:		
Current year	2,425,464	9,125,915
Prior years - TRICARE	(18,890)	25,685 (1)
Prior years - non-TRICARE (2)	(35,140)	(13,404)
Total incurred	<u>2,371,434</u>	<u>9,138,196</u>
Paid related to:		
Current year	(1,403,792)	(8,002,610)
Prior years	(883,730)	(1,079,841)
Total paid	<u>(2,287,522)</u>	<u>(9,082,451)</u>
Balances at end of period	<u>\$ 1,226,043</u>	<u>\$ 1,142,131</u>

- (1) Changes in estimates of medical expenses payable for TRICARE may result from issues that entitle us to additional revenues derived from change orders or the bid price adjustment process, which was the case with substantially all of the unfavorable development for prior periods recognized during 2002.
- (2) Changes in estimates of non-TRICARE incurred claims for prior years recognized during 2003 and 2002 related primarily to our commercial lines of business. The impact of any reduction of "incurred related to prior years" claims may be offset as we re-establish the "incurred related to current year". Our reserving practice is to consistently recognize the actuarial best estimate of our ultimate liability for our claims within a level of confidence required to meet actuarial standards. Thus, only when the release of a prior year reserve is not offset with the same level of conservatism in estimating the current year reserve will the redundancy reduce medical expense. We believe we have consistently applied this methodology in determining our best estimate for unpaid claims liability in each period.



Dollars in thousands

**Medical Claim Reserves - Details and Statistics****Medical and Other Expenses Payable Detail:**

	March 31, 2003	December 31, 2002
<i>A</i> IBNR and other medical expenses payable	\$ 703,910	\$ 650,606
<i>B</i> TRICARE IBNR	232,249	212,826
<i>C</i> TRICARE other medical expenses payable	30,055	37,793
<i>D</i> Unprocessed claim inventories	99,000	92,300
<i>E</i> Processed claim inventories	118,300	105,422
<i>F</i> Payable to pharmacy benefit administrator	42,529	43,184
Total medical and other expenses payable	\$ 1,226,043	\$ 1,142,131

- A* IBNR represents an estimate of medical expenses payable for claims incurred but not reported (IBNR) at the balance sheet date. The level of IBNR is primarily impacted by membership levels, medical claim trends and the receipt cycle time which represents the length of time between when a claim is initially incurred and when the claim form is received (i.e. a shorter time span results in lower reserves for claims IBNR).
- B* TRICARE IBNR has increased primarily due to an increase in claim inventories at our third party claim administrator for claims not submitted electronically.
- C* TRICARE other medical expense payable may include liabilities to subcontractors and/or risk share payables to the Department of Defense. The level of these balances may fluctuate from period to period due to the timing of payment (cutoff) and whether or not the balances are payables or receivables (receivables from the Department of Defense are classified as "receivables" in our balance sheet).
- D* Unprocessed claim inventories represent the estimated valuation of claims received but not yet fully processed. TRICARE claim inventories are not included in this amount as an independent third party administrator processes all TRICARE medical claims on our behalf. Reserves for TRICARE claims inventory are included in TRICARE IBNR.
- E* Processed claim inventories represent the estimated valuation of processed claims that are in the post claim adjudication process, which consists of administrative functions such as audit and check batching and handling.
- F* The balance due to our pharmacy benefit administrator fluctuates due to bi-weekly payments and the month-end cutoff.

**Receipt Cycle Time:**

Due to increasing electronic connectivity and other efficiencies gained by our providers with regards to the claim submission process, the average length of time between when a claim was initially incurred and when the claim form was received has generally shortened over the past several years. Below is a summary:

	<i>Average # of Days from Incurred Date to Receipt Date (1)</i>			
	2003	2002	Change	% Change
1st Quarter Average	17.1	19.0	(1.9)	-10.0%
2nd Quarter Average	-	18.1	n/a	n/a
3rd Quarter Average	-	17.3	n/a	n/a
4th Quarter Average	-	16.9	n/a	n/a
Full Year Average	17.1	17.8	(0.7)	-3.9%

(1) Receipt cycle time data for our 2 largest claim processing platforms representing approximately 90% of our claims volume.

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**Medical Claim Reserves - Details and Statistics**


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**Unprocessed Claim Inventories:**

The estimated valuation and number of claims on hand that are yet to be processed are as follows:

<b>Date</b>	<b>Estimated Valuation (000)</b>	<b>Claim Item Counts</b>	<b>Number of Days On Hand</b>
12/31/01	\$ 125,400	518,100	5.0
3/31/02	\$ 121,000	559,600	5.2
6/30/02	\$ 110,300	513,100	4.8
9/30/02	\$ 108,800	496,200	4.8
12/31/02	\$ 92,300	424,200	4.1
3/31/03	\$ 99,000	421,700	4.0

**Days in Claims Payable (Quarterly):**

A common metric for monitoring medical claim reserve levels relative to the medical claim expenses is days in claims payable, or DCP, which represents the medical claim liabilities at the end of the period divided by average medical expenses per day in the quarterly period. Since we have some providers under capitation payment arrangements (which do not require a medical claim IBNR reserve), we have also summarized this metric excluding capitation expenses.

<b>Quarter Ended</b>	<b>Days in Claims Payable (DCP)</b>	<b>Annual Change</b>	<b>% Change</b>	<b>DCP</b>		
				<b>Excluding Capitation</b>	<b>Annual Change</b>	<b>% Change</b>
12/31/01	47.4	(3.9)	-7.6%	57.1	(4.4)	-7.2%
3/31/02	47.2	(2.3)	-4.6%	56.2	(3.4)	-5.7%
6/30/02	46.8	(3.1)	-6.2%	55.3	(4.7)	-7.8%
9/30/02	46.6	(2.5)	-5.1%	55.3	(3.9)	-6.6%
12/31/02	45.2	(2.2)	-4.6%	53.3	(3.8)	-6.7%
3/31/03	46.5	(0.7)	-1.5%	54.7	(1.5)	-2.7%

This metric fluctuates due to all of the issues reviewed above, including the change in the receipt cycle time, the change in medical claim inventories, the change in TRICARE liability balances, and the timing of our bi-weekly payment to our pharmacy benefits administrator. An annual recap follows:

	<b>2003</b>	<b>2002</b>
4th quarter-prior year	45.2	47.4
Impact of change in claim receipt cycle time	0.3	(2.6)
Impact of change in unprocessed claim inventories	0.3	(1.3)
Impact of changing TRICARE reserve balances	0.7	0.3
Impact of change in pharmacy payment cutoff	-	0.7
All other	-	0.7
Year to date-current year	46.5	45.2