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news release

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Humana Reports Second Quarter and First Half 2003 Results

LOUISVILLE, KY (July 28, 2003) – Humana Inc. (NYSE: HUM) today reported results for the second quarter ended June 30, 2003 and comparative amounts for the quarter ended June 30, 2002 as follows:

	<u>2Q03 GAAP¹</u>	<u>2Q02 GAAP¹</u>	<u>2Q03 Adjusted²</u>
Earnings per diluted share	\$.43	\$.27	\$.37
Net income (<i>in thousands</i>)	\$ 69,276	\$ 45,359	\$ 59,168
Pre-tax margin	3.4%	2.4%	3.0%

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

Second quarter 2003 adjusted earnings per diluted share of \$.37 increased 37 percent compared to the same period in the prior year. The improvement was driven primarily by increasing operating margins in the company's Commercial segment, as well as TRICARE

revenue adjustments which were both earlier and greater than had previously been expected. Adjusted net income for the second quarter improved 30 percent compared to that for the same period in the prior year. The adjusted pre-tax margin of 3.0 percent increased 60 basis points from the second quarter of 2002.

Results for the six months ended June 30, 2003 and 2002 are as follows:

	First Half 2003 <u>GAAP</u>¹	First Half 2002 <u>GAAP</u> ¹	First Half 2003 <u>Adjusted</u>²
Earnings per diluted share	\$.62	\$.55	\$.68
Net income (in thousands)	\$ 100,506	\$ 92,129	\$ 109,192
Pre-tax margin	2.5%	2.4%	2.8%

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

Adjusted earnings per diluted share for the six months ended June 30, 2003 of \$.68 increased 24 percent compared to \$.55 for the six months ended June 30, 2002. Net income on an adjusted basis improved 19 percent for the first half of 2003 versus the first half of 2002.

"We are particularly pleased with this quarter's results as they provide further evidence of the soundness of our Commercial strategy," said Michael B. McCallister, Humana's chief executive officer. "Humana's reputation in the Commercial segment as an innovator in solutions for employers is not only growing, it is leading to an increase in sales activity. That activity, combined with consistent pricing discipline, has helped drive the improved results for our second quarter. We anticipate our innovative products will continue to accelerate interest in all of our products and, in turn, improved results for Humana."

Unusual Items

During the first half of 2003, the company recorded the following items that were not reflective of the run-rate operations of the company. Management believes these unusual

items should be excluded to properly reflect the run-rate operations of the company and to provide better comparability to prior year results.

One unusual item was recorded during the second quarter ended June 30, 2003 as follows:

<i>(in thousands, except per share amounts)</i>	Statement of Income Line Item <u>Impacted</u>	<u>Pre-tax Impact</u>	<u>After-tax Impact</u>	Earnings per diluted share <u>Impact</u>
Gain on sale of venture capital investment	Investment income	\$ 15,200	\$ 10,108	\$.06

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

Unusual items recorded during the six months ended June 30, 2003 were as follows:

<i>(in thousands, except per share amounts)</i>	Statement of Income Line Item <u>Impacted</u>	<u>Pre-tax Impact</u>	<u>After-tax Impact</u>	Earnings per diluted share <u>Impact</u>
Gain on sale of venture capital investment	Investment income	\$ 15,200	\$ 10,108	\$.06
Building and equipment writedown	Restructuring charge	(17,233)	(10,529)	(.07)
Software abandonment	Restructuring charge	(13,527)	(8,265)	(.05)
Total unusual items⁴		\$ (15,560)	\$ (8,686)	\$ (.05)

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

Segment Results

Pre-tax income and margins for the company's business segments for the second quarters and six months ended June 30, 2003 and 2002 were as follows:

<u>Pre-tax income</u>	<u>2Q03 GAAP¹</u>	<u>2Q02 GAAP¹</u>	<u>2Q03 Adjusted²</u>
<i>(in thousands)</i>			
Commercial segment	\$ 43,757	\$ 14,893	\$ 31,334
Government segment	60,433	51,812	57,656
Consolidated	\$ 104,190	\$ 66,705	\$ 88,990

<u>Pre-tax margins</u>	<u>2Q03 GAAP¹</u>	<u>2Q02 GAAP¹</u>	<u>2Q03 Adjusted²</u>
Commercial segment	2.6%	1.0%	1.9%
Government segment	4.5%	3.8%	4.3%
Consolidated	3.4%	2.4%	3.0%

<u>Pre-tax income</u>	<u>First Half 2003 GAAP¹</u>	<u>First Half 2002 GAAP¹</u>	<u>First Half 2003 Adjusted²</u>
<i>(in thousands)</i>			
Commercial segment	\$ 80,996	\$ 40,988	\$ 86,425
Government segment	70,596	94,496	80,727
Consolidated	\$ 151,592	\$ 135,484	\$ 167,152

<u>Pre-tax margins</u>	<u>First Half 2003 GAAP¹</u>	<u>First Half 2002 GAAP¹</u>	<u>First Half 2003 Adjusted²</u>
Commercial segment	2.4%	1.4%	2.6%
Government segment	2.7%	3.6%	3.1%
Consolidated	2.5%	2.4%	2.8%

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

Revenues and Membership

Consolidated revenues and membership for the second quarters and the six months ended June 30, 2003 and 2002 were as follows:

<u>Consolidated</u> <i>(in thousands)</i>	<u>2003</u> <u>GAAP¹</u>	2002 <u>GAAP¹</u>	<u>2003</u> <u>Adjusted²</u>
Second quarter - total revenues	\$ 3,029,958	\$ 2,831,940	\$ 3,014,758
First Half - total revenues	\$ 5,961,674	\$ 5,564,522	\$ 5,946,474
Second quarter - Ending medical membership	6,640,900	6,572,000	6,640,900

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

Commercial segment premiums and administrative services fees and membership for the second quarters and the six months ended June 30, 2003 and 2002 were as follows:

<u>Commercial Segment</u> <i>(in thousands)</i>	<u>2Q03</u> <u>GAAP¹</u>	2Q02 <u>GAAP¹</u>	First Half <u>2003</u> <u>GAAP¹</u>	First Half 2002 <u>GAAP¹</u>
Premiums	\$ 1,630,554	\$ 1,437,087	\$ 3,246,110	\$ 2,863,075
Administrative services fees	30,356	25,576	59,946	50,723
Total premiums and administrative services fees	\$ 1,660,910	\$ 1,462,663	\$ 3,306,056	\$ 2,913,798
Ending medical membership	3,020,700	2,947,100	3,020,700	2,947,100

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

Commercial segment medical membership grew by 2.5 percent from June 30, 2002 to June 30, 2003. Commercial premium yields were within the 13 to 15 percent range for the second quarter of 2003. These factors contributed to a year-over-year increase in total premiums and administrative services fees for the Commercial segment of 14 percent for the second quarter of 2003 and 13 percent for the six months ended June 30, 2003.

Government segment premiums and administrative services fees and membership for the second quarters and the six months ended June 30, 2003 and 2002 were as follows:

<u>Government Segment</u> <i>(in thousands)</i>	2Q03 <u>GAAP</u>¹	2Q02 <u>GAAP</u>¹	First Half 2003 <u>GAAP</u>¹	First Half 2002 <u>GAAP</u>¹
Premiums	\$ 1,282,851	\$ 1,306,652	\$ 2,510,244	\$ 2,522,476
Administrative services fees	41,312	38,255	72,858	78,121
Total premiums and administrative services fees	\$ 1,324,163	\$ 1,344,907	\$ 2,583,102	\$ 2,600,597
Ending medical membership	3,620,200	3,624,900	3,620,200	3,624,900

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

As expected, government segment premiums and administrative services fees decreased year-over-year by 2 percent in the second quarter of 2003 and by 1 percent during the six months ended June 30, 2003.

Medicare+Choice membership totaled 324,200 at June 30, 2003, a decline of 29,900 members from the prior year's quarter. Medicare+Choice premium yield for the second quarter of 2003 was within the 4 to 6 percent range.

TRICARE's insured membership totaled 1,750,800 at June 30, 2003, essentially flat versus the June 30, 2002 level. TRICARE ASO membership was 1,052,500 at the end of the second quarter of 2003, up 3 percent from the second quarter of 2002. TRICARE premium revenues and administrative services fees increased year-over-year by approximately 1 percent during the second quarter of 2003 and increased approximately 4 percent for the six months of 2003 versus the same period in the prior year.

Medicaid membership of 492,700 at June 30, 2003 grew by approximately 1 percent from June 30, 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 SG&A expense ratio (SG&A expenses as a percent of premiums and administrative services fees) for the quarters and six months ended June 30, 2003 and 2002 were as follows:

	<u>2Q03</u>	<u>2Q02</u>	First Half <u>2003</u>	First Half <u>2002</u>
Medical expense ratio – GAAP ¹	83.9%	84.4%	83.7%	83.8%
SG&A expense ratio – GAAP ¹	15.0%	14.8%	15.2%	15.4%

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

The company continues to experience favorable development in its estimates of prior years’ medical claims liabilities. However, management has consistently applied the same level of conservatism in its reserving methodology. Consequently, these prior year favorable developments had no favorable impact on the company’s year-to-date results from operations.

Cash flows from operations

Cash flows provided by (used in) operations for the second quarters and the six months ended June 30, 2003 and 2002 were as follows:

	<u>2Q03</u>	<u>2Q02</u>	First Half <u>2003</u>	First Half <u>2002</u>
<i>(in thousands)</i>				
GAAP ¹	\$ 161,496	\$ (43,778)	\$ 53,266	\$ (183,915)
Normalized ³	\$ 161,496	\$ (43,778)	\$ 259,021	\$ 32,713

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

Share Repurchase Program

The company announced that its Board of Directors authorized the use of up to \$100 million for the repurchase of its common shares, replacing the outstanding share repurchase program under which the company repurchased 8.6 million shares for an aggregate purchase price of \$94.9 million, an average price of \$10.98 per share. The company had 161.7 million shares outstanding as of June 30, 2003. The company said that the shares may be

purchased from time to time at prevailing prices in the open market or in privately-negotiated transactions.

Guidance

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

For the Full Year 2003:	<i>Projected</i>
Earnings per diluted share – GAAP ¹	\$1.39 to \$1.42
Earnings per diluted share – Adjusted ²	\$1.44 to \$1.47
Consolidated revenues - GAAP ¹	Over \$12 billion
Commercial segment pretax income - GAAP ¹	Over \$125 million
Commercial segment pretax income - Adjusted ²	Over \$130 million
Commercial segment medical membership (fully insured and ASO combined)	Organic growth of 2% to 3%
Commercial premium yields	13% to 15%
Commercial medical cost trends	12% to 14%
Commercial segment SG&A expense ratio – GAAP ¹	16.3% to 16.5%
Medicare+Choice membership	310,000 to 320,000 by year end
Medicare+Choice premium yields	4% to 6%
Medicare+Choice medical cost trends	4% to 6%
TRICARE pretax margin	Approximately 3%
TRICARE receivables	\$300 million to \$325 million
Government segment SG&A expense ratio - GAAP ¹	Relatively unchanged year over year
Cash flows from operations – GAAP ¹ and Normalized ³	\$375 million to \$400 million
Capital expenditures	Approximately \$95 million
Effective tax rate	34%

For the Third Quarter of 2003:	<i>Projected</i>
Earnings per diluted share – GAAP ¹	\$.37 to \$.38
Effective tax rate	33.5%

For the Full Year 2004:	<u>Projected</u>
Earnings per diluted share – GAAP ¹	Approximately \$1.60 (range of \$1.55 to \$1.65)
Effective tax rate	36%

(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 unusual items recorded during the first and second quarters of 2003. The statistics pages at the end of this press release provide a reconciliation of GAAP to adjusted results for the quarter and six months ended June 30, 2003. The detail of the adjustments also is described in the “Unusual Items” 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.

4 - Mathematical differences due to rounding in earnings per share calculations.

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. 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, 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 approximately two hours after the live call.

This news release contains forward-looking statements. The forward-looking statements made in the 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 the following documents, as filed by Humana with the Securities and Exchange Commission:

- *Form 10-K for the year ended December 31, 2002;*
- *Form 10-Q for the quarter ended March 31, 2003.*

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, including copies of:

- Annual report to stockholders;
- Securities and Exchange Commission filings;
- Most recent investor conference presentation;
- Quarterly earnings press releases;
- Audio archive of most recent earnings release conference call;

- Calendar of events (includes upcoming earnings conference call dates, times, and access number, as well as planned participation in investor conferences).

In thousands

Ending Medical Membership	June 30,		Difference	Percent Change
	2003	2002		
Commercial:				
Fully insured	2,350.4	2,319.6	30.8	1.3
ASO	670.3	627.5	42.8	6.8
Total Commercial	3,020.7	2,947.1	73.6	2.5
Government:				
Medicare+Choice	324.2	354.1	(29.9)	(8.4)
Medicaid	492.7	487.9	4.8	1.0
TRICARE	1,750.8	1,761.0	(10.2)	(0.6)
TRICARE ASO	1,052.5	1,021.9	30.6	3.0
Total Government	3,620.2	3,624.9	(4.7)	(0.1)
Total ending medical membership	6,640.9	6,572.0	68.9	1.0

Ending Specialty Membership	June 30,		Difference	Percent Change
	2003	2002		
Commercial:				
Dental-fully insured	745.7	777.4	(31.7)	(4.1)
Dental-ASO	365.1	308.3	56.8	18.4
Total Dental	1,110.8	1,085.7	25.1	2.3
Group life	510.5	529.7	(19.2)	(3.6)
Short-term disability	20.7	22.8	(2.1)	(9.2)
Total ending specialty membership	1,642.0	1,638.2	3.8	0.2

Premiums	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Commercial:				
Fully insured medical	\$ 1,551,619	\$ 1,353,273	\$ 3,088,572	\$ 2,696,534
Specialty	78,935	83,814	157,538	166,541
Total Commercial	1,630,554	1,437,087	3,246,110	2,863,075
Government:				
Medicare+Choice	630,432	662,480	1,266,274	1,334,666
Medicaid	116,005	113,234	237,235	224,487
TRICARE	536,414	530,938	1,006,735	963,323
Total Government	1,282,851	1,306,652	2,510,244	2,522,476
Total premiums	\$ 2,913,405	\$ 2,743,739	\$ 5,756,354	\$ 5,385,551

Administrative services fees	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Commercial	\$ 30,356	\$ 25,576	\$ 59,946	\$ 50,723
Government	41,312	38,255	72,858	78,121
Total Administrative services fees	\$ 71,668	\$ 63,831	\$ 132,804	\$ 128,844

Dollars in thousands, except per share results

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

Consolidated Statements of Income	June 30, 2003	Unusual Item	Adjusted June 30, 2003	June 30, 2002
Revenues:				
Premiums	\$ 2,913,405	\$ -	\$ 2,913,405	\$ 2,743,739
Administrative services fees	71,668	-	71,668	63,831
Investment income	43,228	(15,200)	28,028	22,681
Other income	1,657	-	1,657	1,689
Total revenues	3,029,958	(15,200)	3,014,758	2,831,940
Operating expenses:				
Medical	2,444,977	-	2,444,977	2,316,188
Selling, general and administrative	448,537	-	448,537	414,433
Depreciation	25,550	-	25,550	26,306
Other intangible amortization	2,903	-	2,903	3,931
Restructuring charge	-	-	-	-
Total operating expenses	2,921,967	-	2,921,967	2,760,858
Income from operations	107,991	(15,200)	92,791	71,082
Interest expense	3,801	-	3,801	4,377
Income before income taxes	104,190	(15,200)	88,990	66,705
Provision for income taxes	34,914	(5,092)	29,822	21,346
Net income	\$ 69,276	\$ (10,108)	\$ 59,168	\$ 45,359
Basic earnings per common share	\$ 0.44	\$ (0.06)	\$ 0.38	\$ 0.28
Diluted earnings per common share	\$ 0.43	\$ (0.06)	\$ 0.37	\$ 0.27
Shares used in computing basic earnings per common share (000's)	157,395	157,395	157,395	164,853
Shares used in computing diluted earnings per common share (000's)	161,149	161,149	161,149	168,860
Key Ratios				
Medical expense ratio				
Commercial	83.0%	-	83.0%	83.9%
Government	85.1%	-	85.1%	85.0%
Total	83.9%	-	83.9%	84.4%
Selling, general, and administrative expense ratio				
Commercial	16.8%	-	16.8%	16.4%
Government	12.7%	-	12.7%	13.0%
Total	15.0%	-	15.0%	14.8%

Dollars in thousands, except per share results

----- Six months ended -----

Consolidated Statements of Income	June 30, 2003	Unusual Items	Adjusted June 30, 2003	June 30, 2002
Revenues:				
Premiums	\$ 5,756,354	\$ -	\$ 5,756,354	\$ 5,385,551
Administrative services fees	132,804	-	132,804	128,844
Investment income	69,045	(15,200)	53,845	46,989
Other income	3,471	-	3,471	3,138
Total revenues	5,961,674	(15,200)	5,946,474	5,564,522
Operating expenses:				
Medical	4,816,411	-	4,816,411	4,510,727
Selling, general and administrative	895,582	-	895,582	849,497
Depreciation	52,759	-	52,759	52,171
Other intangible amortization	6,834	-	6,834	7,862
Restructuring charge	30,760	(30,760)	-	-
Total operating expenses	5,802,346	(30,760)	5,771,586	5,420,257
Income from operations	159,328	15,560	174,888	144,265
Interest expense	7,736	-	7,736	8,781
Income before income taxes	151,592	15,560	167,152	135,484
Provision for income taxes	51,086	6,874	57,960	43,355
Net income	\$ 100,506	\$ 8,686	\$ 109,192	\$ 92,129
Basic earnings per common share (A)	\$ 0.64	\$ 0.06	\$ 0.69	\$ 0.56
Diluted earnings per common share (A)	\$ 0.62	\$ 0.05	\$ 0.68	\$ 0.55
Shares used in computing basic earnings per common share (000's)	157,565	157,565	157,565	164,555
Shares used in computing diluted earnings per common share (000's)	160,982	160,982	160,982	168,274
Key Ratios				
Medical expense ratio				
Commercial	82.2%	-	82.2%	82.9%
Government	85.6%	-	85.6%	84.7%
Total	83.7%	-	83.7%	83.8%
Selling, general, and administrative expense ratio				
Commercial	16.8%	-	16.8%	17.0%
Government	13.2%	-	13.2%	13.6%
Total	15.2%	-	15.2%	15.4%

(A) Mathematical differences due to rounding in earnings per share calculations.

Dollars in thousands, except per share results

Operating Results by Segment	----- Three months ended -----			
	June 30, 2003	Unusual Item	Adjusted June 30, 2003	June 30, 2002
Commercial:				
Income before income taxes	\$ 43,757	\$ (12,423)	\$ 31,334	\$ 14,893
Interest expense	3,105	-	3,105	3,197
Depreciation and amortization	17,744	-	17,744	17,463
Commercial EBITDA *	64,606	(12,423)	52,183	35,553
Government:				
Income before income taxes	60,433	(2,777)	57,656	51,812
Interest expense	696	-	696	1,180
Depreciation and amortization	10,709	-	10,709	12,774
Government EBITDA *	71,838	(2,777)	69,061	65,766
Consolidated:				
Net income	69,276	(10,108)	59,168	45,359
Provision for income taxes	34,914	(5,092)	29,822	21,346
Income before income taxes	104,190	(15,200)	88,990	66,705
Interest expense	3,801	-	3,801	4,377
Depreciation and amortization	28,453	-	28,453	30,237
Consolidated EBITDA *	\$ 136,444	\$ (15,200)	\$ 121,244	\$ 101,319

Operating Results by Segment	----- Six months ended -----			
	June 30, 2003	Unusual Items	Adjusted June 30, 2003	June 30, 2002
Commercial:				
Income before income taxes	\$ 80,996	\$ 5,429	\$ 86,425	\$ 40,988
Interest expense	6,168	-	6,168	6,256
Depreciation and amortization	36,972	-	36,972	34,630
Commercial EBITDA *	124,136	5,429	129,565	81,874
Government:				
Income before income taxes	70,596	10,131	80,727	94,496
Interest expense	1,568	-	1,568	2,525
Depreciation and amortization	22,621	-	22,621	25,403
Government EBITDA *	94,785	10,131	104,916	122,424
Consolidated:				
Net income	100,506	8,686	109,192	92,129
Provision for income taxes	51,086	6,874	57,960	43,355
Income before income taxes	151,592	15,560	167,152	135,484
Interest expense	7,736	-	7,736	8,781
Depreciation and amortization	59,593	-	59,593	60,033
Consolidated EBITDA *	\$ 218,921	\$ 15,560	\$ 234,481	\$ 204,298

* 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. 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. Accordingly, we believe the most directly comparable GAAP measure is net income and, therefore, we have reconciled consolidated EBITDA to consolidated net income. Because income taxes are not allocated to the segments, we have reconciled segment EBITDA to income before income taxes.

Dollars in thousands, except per share results

	June 30, 2003	March 31, 2003	December 31, 2002
Consolidated Balance Sheets			
Assets			
Current assets:			
Cash and cash equivalents	\$ 754,942	\$ 532,652	\$ 721,357
Investment securities	1,399,220	1,411,356	1,405,833
Receivables, net:			
Premiums	402,821	472,972	348,562
Administrative services fees	36,688	55,726	68,316
Other	223,800	258,481	250,857
Total current assets	2,817,471	2,731,187	2,794,925
Property and equipment, net	417,446	423,465	459,842
Other assets:			
Long-term investment securities	329,178	312,517	288,724
Goodwill	776,874	776,874	776,874
Other	152,885	185,144	279,665
Total other assets	1,258,937	1,274,535	1,345,263
Total assets	\$ 4,493,854	\$ 4,429,187	\$ 4,600,030
Liabilities and Stockholders' Equity			
Current liabilities:			
Medical and other expenses payable	\$ 1,287,364	\$ 1,226,043	\$ 1,142,131
Trade accounts payable and accrued expenses	455,541	512,723	552,689
Book overdraft	79,536	84,579	94,882
Unearned premium revenues	100,445	117,604	335,757
Short-term debt	265,000	265,000	265,000
Total current liabilities	2,187,886	2,205,949	2,390,459
Long-term debt	334,610	334,328	339,913
Other long-term liabilities	265,098	268,131	263,184
Total liabilities	2,787,594	2,808,408	2,993,556
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; 172,263,921 shares issued at June 30, 2003	28,708	28,562	28,556
Capital in excess of par value	938,648	931,460	931,089
Retained earnings	821,383	752,107	720,877
Accumulated other comprehensive income	29,839	23,257	22,455
Unearned restricted stock compensation	(1,469)	(3,961)	(6,516)
Treasury stock, at cost, 10,606,303 shares at June 30, 2003	(110,849)	(110,646)	(89,987)
Total stockholders' equity	1,706,260	1,620,779	1,606,474
Total liabilities and stockholders' equity	\$ 4,493,854	\$ 4,429,187	\$ 4,600,030
Debt to total capitalization ratio	26.0%	27.0%	27.4%

Dollars in thousands

Consolidated Statements of Cash Flows	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Cash flows from operating activities				
Net income	\$ 69,276	\$ 45,359	\$ 100,506	\$ 92,129
Adjustments to reconcile net income to net cash provided by operating activities:				
Non-cash restructuring charge	-	-	30,760	-
Depreciation and amortization	28,453	30,237	59,593	60,033
Provision for deferred income taxes	7,408	10,158	11,054	23,038
Changes in operating assets and liabilities:				
Receivables	89,189	(145,383)	40,636	(191,193)
Other assets	(28,312)	(25,330)	(22,627)	(27,728)
Medical and other expenses payable	61,321	44,326	145,233	108,303
Other liabilities	(31,057)	(5,878)	(60,069)	(16,682)
Unearned revenues	(17,159)	(4,320)	(235,312)	(242,078)
Other	(17,623)	7,053	(16,508)	10,263
Net cash provided by (used in) operating activities	161,496	(43,778)	53,266	(183,915)
Timing of Medicare+Choice premium payment from CMS	-	-	205,755	216,628
Normalized net cash provided by (used in) operating activities	161,496	(43,778)	259,021	32,713
Cash flows from investing activities				
Purchases of property and equipment, net	(20,843)	(24,365)	(42,477)	(56,730)
Divestiture	-	-	-	1,109
Purchases of investment securities	(716,035)	(572,962)	(2,261,276)	(998,097)
Proceeds from maturities of investment securities	188,003	62,017	384,926	177,971
Proceeds from sales of investment securities	576,928	565,540	1,897,174	869,436
Net cash provided by (used in) investing activities	28,053	30,230	(21,653)	(6,311)
Cash flows from financing activities				
Proceeds from swap exchange	31,556	-	31,556	-
Net commercial paper conduit borrowings	-	2,000	-	2,000
Change in book overdraft	(5,043)	(30,151)	(15,346)	(19,478)
Common stock repurchases	(203)	-	(21,020)	-
Other	6,431	6,517	6,782	6,984
Net cash provided by (used in) provided by financing activities	32,741	(21,634)	1,972	(10,494)
Increase (decrease) in cash and cash equivalents	222,290	(35,182)	33,585	(200,720)
Cash and cash equivalents at beginning of period	532,652	485,882	721,357	651,420
Cash and cash equivalents at end of period	\$ 754,942	\$ 450,700	\$ 754,942	\$ 450,700

Percentage of Ending Membership Under Capitation Arrangements

	Commercial Segment			Government Segment				Consol. Total Medical	
	Fully Insured	ASO	Total Segment	Medicare +Choice	Medicaid	TRICARE	TRICARE ASO		Total Segment
	June 30, 2003								
Capitated HMO hospital system based <i>A</i>	6.2%	-	4.8%	12.5%	2.6%	-	-	1.5%	3.0%
Capitated HMO physician group based <i>A</i>	3.1%	-	2.4%	1.9%	57.5%	-	-	8.0%	5.5%
Risk-sharing <i>B</i>	2.9%	-	2.2%	48.1%	33.8%	-	-	8.9%	5.9%
All other membership	87.8%	100.0%	90.6%	37.5%	6.1%	100.0%	100.0%	81.6%	85.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

June 30, 2002

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>	3.9%	-	3.1%	3.3%	56.7%	-	-	8.0%	5.8%
Risk-sharing <i>B</i>	3.1%	-	2.4%	45.7%	34.3%	-	-	9.1%	6.1%
All other membership	86.3%	100.0%	89.2%	37.7%	6.8%	100.0%	100.0%	81.3%	84.8%
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 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.

Medical Claim Reserves - Details and Statistics

Change in medical and other expenses payable:

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

	For the Six Months Ended June 30, 2003	For the Twelve Months Ended December 31, 2002
Balances at January 1	\$ 1,142,131	\$ 1,086,386
Incurred related to:		
Current year	4,884,188	9,125,915
Prior years - TRICARE	(29,466)	25,685 (1)
Prior years - non-TRICARE (2)	(38,311)	(13,404)
Total incurred	<u>4,816,411</u>	<u>9,138,196</u>
Paid related to:		
Current year	(3,684,801)	(8,002,610)
Prior years	(986,377)	(1,079,841)
Total paid	<u>(4,671,178)</u>	<u>(9,082,451)</u>
Balances at end of period	<u>\$ 1,287,364</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 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:**

	June 30, 2003	March 31, 2003	December 31, 2002
A IBNR and other medical expenses payable	\$ 778,460	\$ 703,910	\$ 650,606
B TRICARE IBNR	232,591	232,249	212,826
C TRICARE other medical expenses payable	24,677	30,055	37,793
D Unprocessed claim inventories	92,100	99,000	92,300
E Processed claim inventories	126,516	118,300	105,422
F Payable to pharmacy benefit administrator	33,020	42,529	43,184
Total medical and other expenses payable	<u>\$ 1,287,364</u>	<u>\$ 1,226,043</u>	<u>\$ 1,142,131</u>

- 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:

	Average # of Days from Incurred Date to Receipt Date (1)			
	2003	2002	Change	% Change
1st Quarter Average	17.1	19.0	(1.9)	-10.0%
2nd Quarter Average	<u>16.7</u>	18.1	(1.4)	-7.7%
3rd Quarter Average	-	17.3	n/a	n/a
4th Quarter Average	-	16.9	n/a	n/a
Full Year Average	<u>16.9</u>	<u>17.8</u>	<u>(0.9)</u>	<u>-5.1%</u>

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

Medical Claim Reserves - Details and Statistics

Unprocessed Claim Inventories:

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

Date	Estimated Valuation (000)	Claim Item Counts	Number of Days On Hand
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	4.5
3/31/03	\$ 99,000	421,700	4.4
6/30/03	\$ 92,100	446,600	4.7

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.

Quarter Ended	Days in Claims Payable (DCP)	Annual Change	% Change	DCP Excluding Capitation	Annual Change	% Change
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%
6/30/03	47.9	1.1	2.4%	56.2	0.9	1.6%

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:

	2003	2002
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	0.0	(1.3)
Impact of changing TRICARE reserve balances	0.7	0.3
Impact of change in pharmacy payment cutoff	(0.4)	0.7
All other	2.7	0.7
Year to date-current year	47.9	45.2