

HUMANA INC  
Form 10-Q  
August 02, 2010  
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**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 June 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5975

**HUMANA INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**61-0647538**  
(I.R.S. Employer  
Identification Number)

**500 West Main Street**

**Louisville, Kentucky 40202**

(Address of principal executive offices, including zip code)

**(502) 580-1000**

(Registrant's telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  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**  
**\$0.16 2/3 par value**

**Outstanding at June 30, 2010**  
**169,232,426 shares**

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**Table of Contents****Humana Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(in thousands, except share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,998,982	\$ 1,613,588
Investment securities	6,882,063	6,190,062
Receivables, less allowance for doubtful accounts of \$51,161 in 2010 and \$50,832 in 2009:		
Premiums	1,310,269	811,800
Administrative services fees	14,833	11,820
Securities lending invested collateral	45,234	119,586
Other current assets	535,708	505,960
<b>Total current assets</b>	<b>10,787,089</b>	<b>9,252,816</b>
Property and equipment, net	660,223	679,142
Long-term investment securities	1,405,734	1,307,088
Goodwill	1,994,593	1,992,924
Other long-term assets	842,931	921,524
<b>Total assets</b>	<b>\$ 15,690,570</b>	<b>\$ 14,153,494</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Benefits payable	\$ 3,829,723	\$ 3,222,574
Trade accounts payable and accrued expenses	1,666,386	1,307,710
Book overdraft	239,916	374,464
Securities lending payable	51,618	126,427
Unearned revenues	209,346	228,817
<b>Total current liabilities</b>	<b>5,996,989</b>	<b>5,259,992</b>
Long-term debt	1,673,565	1,678,166
Future policy benefits payable	1,227,348	1,193,047
Other long-term liabilities	313,843	246,286
<b>Total liabilities</b>	<b>9,211,745</b>	<b>8,377,491</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par; 10,000,000 shares authorized; none issued	0	0
Common stock, \$0.16 2/3 par; 300,000,000 shares authorized; 190,046,852 shares issued at June 30, 2010 and 189,801,119 shares issued at December 31, 2009	31,674	31,634
Capital in excess of par value	1,704,035	1,658,521
Retained earnings	5,028,455	4,429,611
Accumulated other comprehensive income	158,428	42,135
Treasury stock, at cost, 20,814,426 shares at June 30, 2010 and 19,621,069 shares at December 31, 2009	(443,767)	(385,898)

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Total stockholders' equity	6,478,825	5,776,003
Total liabilities and stockholders' equity	\$ 15,690,570	\$ 14,153,494

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****Humana Inc.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three months ended		Six months ended	
	June 30, 2010	2009	June 30, 2010	2009
(in thousands, except per share results)				
<b>Revenues:</b>				
Premiums	\$ 8,376,751	\$ 7,642,527	\$ 16,538,614	\$ 15,113,821
Administrative services fees	126,744	118,694	252,626	234,576
Investment income	79,790	75,340	165,245	144,884
Other revenue	69,436	62,328	136,830	117,269
<b>Total revenues</b>	<b>8,652,721</b>	<b>7,898,889</b>	<b>17,093,315</b>	<b>15,610,550</b>
<b>Operating expenses:</b>				
Benefits	6,859,565	6,367,545	13,667,120	12,636,855
Selling, general and administrative	1,161,790	1,004,342	2,288,833	2,068,145
Depreciation and amortization	69,290	60,478	132,046	118,492
<b>Total operating expenses</b>	<b>8,090,645</b>	<b>7,432,365</b>	<b>16,087,999</b>	<b>14,823,492</b>
Income from operations	562,076	466,524	1,005,316	787,058
Interest expense	26,222	26,574	52,536	53,346
Income before income taxes	535,854	439,950	952,780	733,712
Provision for income taxes	195,778	158,170	353,936	246,215
<b>Net income</b>	<b>\$ 340,076</b>	<b>\$ 281,780</b>	<b>\$ 598,844</b>	<b>\$ 487,497</b>
<b>Basic earnings per common share</b>	<b>\$ 2.02</b>	<b>\$ 1.68</b>	<b>\$ 3.56</b>	<b>\$ 2.92</b>
<b>Diluted earnings per common share</b>	<b>\$ 2.00</b>	<b>\$ 1.67</b>	<b>\$ 3.52</b>	<b>\$ 2.89</b>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****Humana Inc.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>For the six months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 598,844	\$ 487,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(7,976)	(9,550)
Stock-based compensation	39,627	33,022
Depreciation and amortization	132,046	118,492
Benefit for deferred income taxes	(81,267)	(34,825)
Changes in operating assets and liabilities, net of effect of businesses acquired:		
Receivables	(501,482)	(494,139)
Other assets	73,683	(18,827)
Benefits payable	607,149	205,618
Other liabilities	219,163	(98,447)
Unearned revenues	(19,471)	6,757
Other, net	19,646	11,782
<b>Net cash provided by operating activities</b>	<b>1,079,962</b>	<b>207,380</b>
<b>Cash flows from investing activities</b>		
Acquisitions, net of cash acquired	(1,669)	(12,367)
Purchases of property and equipment	(91,427)	(82,602)
Purchases of investment securities	(2,759,168)	(2,839,775)
Maturities of investment securities	1,014,032	604,535
Proceeds from sales of investment securities	1,091,282	1,751,441
Change in securities lending collateral	74,809	133,691
<b>Net cash used in investing activities</b>	<b>(672,141)</b>	<b>(445,077)</b>
<b>Cash flows from financing activities</b>		
Receipts from CMS contract deposits	880,252	1,034,642
Withdrawals from CMS contract deposits	(643,976)	(723,413)
Repayments under credit agreement	0	(250,000)
Change in securities lending payable	(74,809)	(133,691)
Change in book overdraft	(134,548)	(70,689)
Common stock repurchases	(57,869)	(5,999)
Excess tax benefit from stock-based compensation	1,264	244
Proceeds from stock option exercises and other	7,259	1,289
<b>Net cash used in financing activities</b>	<b>(22,427)</b>	<b>(147,617)</b>
Increase (decrease) in cash and cash equivalents	385,394	(385,314)
Cash and cash equivalents at beginning of period	1,613,588	1,970,423
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,998,982</b>	<b>\$ 1,585,109</b>

**Supplemental cash flow disclosures:**

Interest payments	\$ 55,855	\$ 56,635
Income tax payments, net	\$ 356,390	