HUMANA INC
Form 10-Q
July 31, 2013
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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, 2013

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)

Delaware	**61-0647538**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) **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 x 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 x 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 x	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 x

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 June 30, 2013**
$0.16 2/3 par value	156,463,120 shares

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FORM 10-Q

JUNE 30, 2013

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2013	December 31, 2012
	(in millions, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,519	$ 1,306
Investment securities	7,556	8,001
Receivables, less allowance for doubtful accounts of $109 in 2013 and $94 in 2012	1,593	733
Other current assets	1,960	1,670
Total current assets	12,628	11,710
Property and equipment, net	1,133	1,098
Long-term investment securities	1,770	1,846
Goodwill	3,638	3,640
Other long-term assets	1,679	1,685
Total assets	$ 20,848	$ 19,979
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Benefits payable	$ 4,157	$ 3,779
Trade accounts payable and accrued expenses	2,174	2,042
Book overdraft	246	324
Unearned revenues	193	230
Total current liabilities	6,770	6,375
Long-term debt	2,606	2,611
Future policy benefits payable	1,810	1,858
Other long-term liabilities	327	288
Total liabilities	11,513	11,132
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; 195,678,752 shares issued at June 30, 2013 and 194,470,820 shares issued at December 31, 2012	32	32
Capital in excess of par value	2,190	2,101
Retained earnings	8,688	7,881
Accumulated other comprehensive income	209	386
Treasury stock, at cost, 39,215,632 shares at June 30, 2013 and 36,138,955 shares at December 31, 2012	(1,784)	(1,553)
Total stockholders equity	9,335	8,847
Total liabilities and stockholders equity	$ 20,848	$ 19,979

See accompanying notes to condensed consolidated financial statements.

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Humana Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in millions, except per share results)			
Revenues:				
Premiums	$ 9,701	$ 9,166	$ 19,569	$ 18,941
Services	528	434	1,053	784
Investment income	92	99	185	193
Total revenues	10,321	9,699	20,807	19,918
Operating expenses:				
Benefits	8,091	7,652	16,286	16,002
Operating costs	1,461	1,384	2,907	2,767
Depreciation and amortization	80	73	160	143
Total operating expenses	9,632	9,109	19,353	18,912
Income from operations	689	590	1,454	1,006
Interest expense	35	26	70	52
Income before income taxes	654	564	1,384	954
Provision for income taxes	234	208	491	350
Net income	$ 420	$ 356	$ 893	$ 604
Basic earnings per common share	$ 2.66	$ 2.19	$ 5.64	$ 3.70
Diluted earnings per common share	$ 2.63	$ 2.16	$ 5.58	$ 3.65
Dividends declared per common share	$ 0.27	$ 0.26	$ 0.53	$ 0.51

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Net income	$ 420	$ 356	$ 893	$ 604
Other comprehensive (loss) income:				
Change in gross unrealized investment gains/losses	(183)	31	(270)	52
Effect of income taxes	67	(11)	99	(19)
Total change in unrealized investment gains/losses, net of tax	(116)	20	(171)	33
Reclassification adjustment for net realized gains included in investment income	(6)	(10)	(10)	(14)
Effect of income taxes	2	4	4	5
Total reclassification adjustment, net of tax	(4)	(6)	(6)	(9)
Other comprehensive (loss) income, net of tax	(120)	14	(177)	24
Comprehensive income	$ 300	$ 370	$ 716	$ 628

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30,	
	2013	2012
	(in millions)	
Cash flows from operating activities		
Net income	$ 893	$ 604
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(10)	(14)
Stock-based compensation	51	54
Depreciation and amortization	206	160
Benefit for deferred income taxes	(8)	(9)
Changes in operating assets and liabilities, net of effect of businesses acquired:		
Receivables	(860)	177
Other assets	(108)	(250)
Benefits payable	378	170
Other liabilities	52	51
Unearned revenues	(37)	2,077
Other, net	28	32
Net cash provided by operating activities	585	3,052
Cash flows from investing activities		
Acquisitions, net of cash acquired	(12)	(76)
Proceeds from sale of business	33	0
Purchases of property and equipment	(187)	(185)
Purchases of investment securities	(1,385)	(1,364)
Maturities of investment securities	549	757
Proceeds from sales of investment securities	854	529
Net cash used in investing activities	(148)	(339)
Cash flows from financing activities		
Receipts (withdrawals) from contract deposits, net	132	152
Repayment of long-term debt	0	(36)
Change in book overdraft	(78)	(46)
Common stock repurchases	(231)	(278)
Dividends paid	(83)	(82)
Excess tax benefit from stock-based compensation	0	21
Proceeds from stock option exercises and other	36	48
Net cash used in financing activities	(224)	(221)
Increase in cash and cash equivalents	213	2,492
Cash and cash equivalents at beginning of period	1,306	1,377
Cash and cash equivalents at end of period	$ 1,519	$ 3,869

Supplemental cash flow disclosures:

Interest payments	$ 72	$ 55
Income tax payments, net	$ 511	$ 293

See accompanying notes to condensed consolidated financial statements.

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Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are presented in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America, or GAAP, or those normally made in an Annual Report on Form 10-K. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, the reader of this Form 10-Q should refer to our Form 10-K for the year ended December 31, 2012, that was filed with the Securities and Exchange Commission, or the SEC, on February 21, 2013, as amended on April 12, 2013 to correct an error in the exhibit index. We refer to the Form 10-K, together with any amendments, as the 2012 Form 10-K in this document. References throughout this document to we, us, our, Company, and Humana mean Humana Inc. and its subsidiaries.

The preparation of our condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The areas involving the most significant use of estimates are the estimation of benefits payable, the impact of risk sharing provisions related to our Medicare contracts, the valuation and related impairment recognition of investment securities, and the valuation and related impairment recognition of long-lived assets, including goodwill. These estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results may ultimately differ materially from those estimates. Refer to Note 2 to the consolidated financial statements included in our 2012 Form 10-K for information on accounting policies that the Company considers in preparing its consolidated financial statements.

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

Business Segment Reclassifications

On January 1, 2013, we reclassified certain of our businesses to correspond with internal management reporting changes and renamed our Health and Well-Being Services segment as Healthcare Services. Our Employer Group segment now includes our health and wellness businesses, including HumanaVitality and Lifesynch s employee assistance programs, which had historically been reported in our Healthcare Services segment. The Retail segment now includes our contract with the Centers for Medicare and Medicaid Services, or CMS, to administer the Limited Income Newly Eligible Transition, or LI-NET, program as well as our state-based Medicaid businesses, which had historically been reported in our Other Businesses category. Prior period segment financial information has been recast to conform to the 2013 presentation. See Note 13 for segment financial information.

Military Services

As described in Note 2 to the consolidated financial statements included in our 2012 Form 10-K, on April 1, 2012, we began delivering services under the current TRICARE South Region contract with the Department of Defense, or DoD, as more fully described in Note 12. We account for revenues under the current contract net of estimated healthcare costs similar to an administrative services fee only agreement. Under our previous contract, revenues were reported on a gross basis and included health care services provided to beneficiaries which were in turn reimbursed by the federal government.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting standards that apply to us or that will have a material impact on our results of operations, financial condition, or cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

3. ACQUISITIONS

On December 21, 2012, we acquired Metropolitan Health Networks, Inc., or Metropolitan, a Medical Services Organization, or MSO, that coordinates medical care for Medicare Advantage beneficiaries and Medicaid recipients, primarily in Florida. We acquired all of the outstanding shares of Metropolitan and repaid all outstanding debt of Metropolitan for a transaction value of $851 million, plus transaction expenses. The total consideration of $851 million exceeded our estimated fair value of the net tangible assets acquired by approximately $833 million, of which we allocated $263 million to other intangible assets and $570 million to goodwill. The goodwill was assigned to the Healthcare Services segment and is not deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts and trade names, have a weighted average useful life of 8.4 years. The purchase price allocation of Metropolitan is preliminary, subject to completion of valuation analyses, including, for example, refining assumptions used to calculate the fair value of other intangible assets.

On October 29, 2012, we acquired a noncontrolling equity interest in MCCI Holdings, LLC, or MCCI, a privately held MSO headquartered in Miami, Florida that coordinates medical care for Medicare Advantage beneficiaries and Medicaid recipients, primarily in Florida and Texas.

The Metropolitan and MCCI transactions provide us with components of a successful integrated care delivery model that has demonstrated scalability to new markets. A substantial portion of the revenues for both Metropolitan and MCCI are derived from services provided to Humana Medicare Advantage members under capitation contracts with our health plans. In addition, Metropolitan and MCCI provide services to Medicare Advantage and Medicaid members under capitation contracts with third party health plans. Under these capitation agreements with Humana and third party health plans, Metropolitan and MCCI assume financial risk associated with these Medicare Advantage and Medicaid members.

On July 6, 2012, we acquired SeniorBridge Family Companies, Inc., or SeniorBridge, a chronic-care provider of in-home care for seniors, expanding our existing clinical and home health capabilities and strengthening our offerings for members with complex chronic-care needs. The allocation of the purchase price resulted in goodwill of $99 million and other intangible assets of $14 million. The goodwill was assigned to the Healthcare Services segment and is not deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts, trade name, and technology, have a weighted average useful life of 5.2 years.

Effective March 31, 2012, we acquired Arcadian Management Services, Inc., or Arcadian, a Medicare Advantage health maintenance organization (HMO) serving members in 15 U.S. states, increasing Medicare membership and expanding our Medicare footprint and future growth opportunities in these states. The allocation of the purchase price resulted in goodwill of $44 million and other intangible assets of $38 million. The goodwill was assigned to the Retail segment and is not deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts and provider contracts, have a weighted average useful life of 9.7 years.

The results of operations and financial condition of Metropolitan, SeniorBridge, and Arcadian have been included in our condensed consolidated statements of income and condensed consolidated balance sheets from the acquisition dates. In addition, during 2013 and 2012, we acquired other health and wellness, provider, and technology related businesses which, individually or in the aggregate, have not had, and are not expected to have, a material impact on our results of operations, financial condition, or cash flows. For the year ended December 31, 2012, primarily in the fourth quarter, we recognized acquisition-related costs in connection with 2012 acquisitions of $27 million. The pro forma financial information assuming the acquisitions had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenues and earnings generated during the year of acquisition, were not material for disclosure purposes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

On July 24, 2013, we announced that we had entered into a definitive agreement to acquire American Eldercare Inc., or American Eldercare, the largest provider of nursing home diversion services in the state of Florida (serving frail and elderly individuals in home and community-based settings). American Eldercare complements our core capabilities and strength in serving seniors and disabled individuals with a unique focus on individualized and integrated care, and was selected to provide Medicaid long-term care services across the entire state of Florida. The enrollment effective dates for the various regions range from August 2013 to March 2014. The transaction is subject to state regulatory approvals and is anticipated to close by the fourth quarter of 2013.

4. INVESTMENT SECURITIES

Investment securities classified as current and long-term were as follows at June 30, 2013 and December 31, 2012, respectively:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
June 30, 2013				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 568	$ 9	$ (6)	$ 571
Mortgage-backed securities	1,423	44	(27)	1,440
Tax-exempt municipal securities	2,933	113	(18)	3,028
Mortgage-backed securities:				
Residential	27	1	0	28
Commercial	557	23	(7)	573
Asset-backed securities	53	1	(1)	53
Corporate debt securities	3,423	239	(29)	3,633
Total debt securities	$ 8,984	$ 430	$ (88)	$ 9,326
December 31, 2012				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 602	$ 16	$ 0	$ 618
Mortgage-backed securities	1,519	85	(1)	1,603
Tax-exempt municipal securities	2,890	185	(4)	3,071
Mortgage-backed securities:				
Residential	33	2	(1)	34
Commercial	615	44	0	659
Asset-backed securities	66	2	0	68
Corporate debt securities	3,394	402	(2)	3,794
Total debt securities	$ 9,119	$ 736	$ (8)	$ 9,847

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Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows at June 30, 2013 and December 31, 2012, respectively:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
June 30, 2013						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 298	$ (6)	$ 6	$ 0	$ 304	$ (6)
Mortgage-backed securities	660	(26)	17	(1)	677	(27)
Tax-exempt municipal securities	466	(17)	28	(1)	494	(18)
Mortgage-backed securities:						
Residential	2	0	2	0	4	0
Commercial	199	(7)	0	0	199	(7)
Asset-backed securities	36	(1)	0	0	36	(1)
Corporate debt securities	588	(28)	4	(1)	592	(29)
Total debt securities	$ 2,249	$ (85)	$ 57	$ (3)	$ 2,306	$ (88)
December 31, 2012						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 56	$ 0	$ 2	$ 0	$ 58	$ 0
Mortgage-backed securities	38	0	25	(1)	63	(1)
Tax-exempt municipal securities	233	(3)	27	(1)	260	(4)
Mortgage-backed securities:						
Residential	0	0	4	(1)	4	(1)
Commercial	94	0	0	0	94	0
Asset-backed securities	2	0	4	0	6	0
Corporate debt securities	104	(2)	4	0	108	(2)
Total debt securities	$ 527	$ (5)	$ 66	$ (3)	$ 593	$ (8)

Approximately 94% of our debt securities were investment-grade quality, with a weighted average credit rating of AA- by S&P at June 30, 2013. Most of the debt securities that were below investment-grade were rated BB, the higher end of the below investment-grade rating scale. At June 30, 2013, 10% of our tax-exempt municipal securities were pre-refunded, generally with U.S. government and agency securities. Tax-exempt municipal securities that were not pre-refunded were diversified among general obligation bonds of U.S. states and local municipalities as well as special revenue bonds. General obligation bonds, which are backed by the taxing power and full faith of the issuer, accounted for 41% of the tax-exempt municipals that were not pre-refunded in the portfolio. Special revenue bonds, issued by a municipality to finance a specific public works project such as utilities, water and sewer, transportation, or education, and supported by the revenues of that project, accounted for the remaining 59% of these municipals. Our general obligation bonds are diversified across the United States with no individual state exceeding 10%. In addition, 20% of our tax-exempt securities were insured by bond insurers and had an equivalent weighted average S&P credit rating of AA- exclusive of the bond insurers guarantee. Our investment policy limits investments in a single issuer and

requires diversification among various asset types.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

The recoverability of our non-agency residential and commercial mortgage-backed securities is supported by factors such as seniority, underlying collateral characteristics, and credit enhancements. These residential and commercial mortgage-backed securities at June 30, 2013 primarily were composed of senior tranches having high credit support, with over 99% of the collateral consisting of prime loans. The weighted average credit rating of all commercial mortgage-backed securities was AA at June 30, 2013.

The percentage of corporate securities associated with the financial services industry was 24% at June 30, 2013 and 23% at December 31, 2012.

Several European countries, including Spain, Italy, Ireland, Portugal, Cyprus, and Greece, have been subject to credit deterioration due to weakness in their economic and fiscal situations. We have no direct exposure to sovereign issuances of these six countries.

All issuers of securities we own that were trading at an unrealized loss at June 30, 2013 remain current on all contractual payments. After taking into account these and other factors previously described, we believe these unrealized losses primarily were caused by an increase in market interest rates and tighter liquidity conditions in the current markets than when the securities were purchased. At June 30, 2013, we did not intend to sell the securities with an unrealized loss position in accumulated other comprehensive income, and it is not likely that we will be required to sell these securities before recovery of their amortized cost basis. As a result, we believe that the securities with an unrealized loss were not other-than-temporarily impaired at June 30, 2013.

The detail of realized gains (losses) related to investment securities and included within investment income was as follows for the three and six months ended June 30, 2013 and 2012:

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Gross realized gains	$ 11	$ 11	$ 17	$ 16
Gross realized losses	(5)	(1)	(7)	(2)
Net realized capital gains	$ 6	$ 10	$ 10	$ 14

There were no material other-than-temporary impairments for the three and six months ended June 30, 2013 or 2012.

The contractual maturities of debt securities available for sale at June 30, 2013, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$ 473	$ 478
Due after one year through five years	1,833	1,899
Due after five years through ten years	2,768	2,900
Due after ten years	1,850	1,955
Mortgage and asset-backed securities	2,060	2,094

Total debt securities	$ 8,984	$ 9,326

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

5. FAIR VALUE

Financial Assets

The following table summarizes our fair value measurements at June 30, 2013 and December 31, 2012, respectively, for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		(in millions)		
June 30, 2013				
Cash equivalents	$ 1,410	$ 1,410	$ 0	$ 0
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	571	0	571	0
Mortgage-backed securities	1,440	0	1,440	0
Tax-exempt municipal securities	3,028	0	3,015	13
Mortgage-backed securities:				
Residential	28	0	28	0
Commercial	573	0	573	0
Asset-backed securities	53	0	52	1
Corporate debt securities	3,633	0	3,611	22
Total debt securities	9,326	0	9,290	36
Total invested assets	$ 10,736	$ 1,410	$ 9,290	$ 36
December 31, 2012				
Cash equivalents	$ 1,177	$ 1,177	$ 0	$ 0
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	618	0	618	0
Mortgage-backed securities	1,603	0	1,603	0
Tax-exempt municipal securities	3,071	0	3,058	13
Mortgage-backed securities:				
Residential	34	0	34	0
Commercial	659	0	659	0
Asset-backed securities	68	0	67	1
Corporate debt securities	3,794	0	3,770	24
Total debt securities	9,847	0	9,809	38

Total invested assets	$ 11,024	$ 1,177	$ 9,809	$ 38

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Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

There were no material transfers between Level 1 and Level 2 during the three and six months ended June 30, 2013 or June 30, 2012.

Our Level 3 assets had a fair value of $36 million at June 30, 2013, or less than 0.4% of our total invested assets. During the three and six months ended June 30, 2013 and 2012, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	For the three months ended June 30,					
	2013			2012		
	Private Placements/ Venture Capital	Auction Rate Securities	Total	Private Placements/ Venture Capital	Auction Rate Securities	Total
	(in millions)					
Balance at April 1	$ 25	$ 13	$ 38	$ 25	$ 15	$ 40
Total gains or losses:						
Realized in earnings	0	0	0	0	0	0
Unrealized in other comprehensive income	(2)	0	(2)	0	0	0
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Settlements	0	0	0	0	0	0
Balance at June 30	$ 23	$ 13	$ 36	$ 25	$ 15	$ 40

	For the six months ended June 30,					
	2013			2012		
	Private Placements/ Venture Capital	Auction Rate Securities	Total	Private Placements/ Venture Capital	Auction Rate Securities	Total
	(in millions)					
Balance at January 1	$ 25	$ 13	$ 38	$ 25	$ 16	$ 41
Total gains or losses:						
Realized in earnings	0	0	0	0	0	0
Unrealized in other comprehensive income	(1)	0	(1)	0	0	0
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	(1)	(1)
Settlements	(1)	0	(1)	0	0	0
Balance at June 30	$ 23	$ 13	$ 36	$ 25	$ 15	$ 40

Financial Liabilities

Our long-term debt is recorded at carrying value in our consolidated balance sheets. The carrying value of our long-term debt outstanding was $2,606 million at June 30, 2013 and $2,611 million at December 31, 2012. The fair value of our long-term debt was $2,772 million at June 30, 2013 and $2,923 million at December 31, 2012. The fair value of our long-term debt is determined based on Level 2 inputs, including quoted

market prices for the same or similar debt, or if no quoted market prices are available, on the current prices estimated to be available to us for debt with similar terms and remaining maturities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As disclosed in Note 3, we completed our acquisitions of Metropolitan, SeniorBridge, and Arcadian during 2012. The values of net tangible assets acquired and the resulting goodwill and other intangible assets were recorded at fair value using Level 3 inputs. The majority of the related tangible assets acquired and liabilities assumed were recorded at their carrying values as of the respective dates of acquisition, as their carrying values approximated their fair values due to their short-term nature. The fair values of goodwill and other intangible assets acquired in these acquisitions were internally estimated primarily based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets are expected to generate in the future. We developed internal estimates for the expected cash flows and discount rates in the present value calculations. Other than assets acquired and liabilities assumed in these acquisitions, there were no assets or liabilities measured at fair value on a nonrecurring basis during the three and six months ended June 30, 2013 or 2012.

6. MEDICARE PART D

We cover prescription drug benefits in accordance with Medicare Part D under multiple contracts with CMS. The condensed consolidated balance sheets include the following amounts associated with Medicare Part D at June 30, 2013 and December 31, 2012. The risk corridor settlement includes amounts classified as long-term because settlement associated with the 2013 provision will exceed 12 months at June 30, 2013.

	June 30, 2013		December 31, 2012	
	Risk Corridor Settlement	CMS Subsidies/ Discounts	Risk Corridor Settlement	CMS Subsidies/ Discounts
	(in millions)			
Other current assets	$ 37	$ 758	$ 37	$ 635
Trade accounts payable and accrued expenses	(217)	(344)	(393)	(77)
Net current (liability) asset	(180)	414	(356)	558
Other long-term assets	39	0	0	0
Other long-term liabilities	(29)	0	0	0
Net long-term asset	10	0	0	0
Total net (liability) asset	$ (170)	$ 414	$ (356)	$ 558

At December 31, 2012, the net risk corridor payable balance included a payable of $158 million related to the 2011 contract year that was paid in January 2013.

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7. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill for our reportable segments has been retrospectively adjusted to conform to the 2013 segment change discussed in Note 1. Changes in the carrying amount of goodwill for our reportable segments for the six months ended June 30, 2013 were as follows:

	Retail	Employer Group	Healthcare Services	Other Businesses	Total
			(in millions)		
Balance at January 1, 2013	$ 857	$ 205	$ 2,486	$ 92	$ 3,640
Acquisitions	0	0	13	0	13
Dispositions	0	0	(15)	0	(15)
Balance at June 30, 2013	$ 857	$ 205	$ 2,484	$ 92	$ 3,638

The following table presents details of our other intangible assets included in other long-term assets in the accompanying condensed consolidated balance sheets at June 30, 2013 and December 31, 2012:

	Weighted Average Life	June 30, 2013			December 31, 2012		
		Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
				(in millions)			
Other intangible assets:							
Customer contracts/relationships	9.5 yrs	$ 725	$ 267	$ 458	$ 733	$ 237	$ 496
Trade names and technology	13.6 yrs	189	30	159	190	21	169
Provider contracts	15.0 yrs	51	21	30	51	19	32
Noncompetes and other	6.5 yrs	51	23	28	51	17	34
Total other intangible assets	10.4 yrs	$ 1,016	$ 341	$ 675	$ 1,025	$ 294	$ 731

Amortization expense for other intangible assets was approximately $28 million for the three months ended June 30, 2013 and $17 million for the three months ended June 30, 2012. For the six months ended June 30, 2013 and 2012, amortization expense for other intangible assets was approximately $56 million and $34 million, respectively. The following table presents our estimate of amortization expense for 2013 and each of the five next succeeding fiscal years:

	(in millions)
For the years ending December 31,:	
2013	$ 111
2014	104
2015	92
2016	86

2017	78
2018	71

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8. EARNINGS PER COMMON SHARE COMPUTATION

Detail supporting the computation of basic and diluted earnings per common share was as follows for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(dollars in millions except per common share results, number of shares in thousands)			
Net income available for common stockholders	$ 420	$ 356	$ 893	$ 604
Weighted average outstanding shares of common stock used to compute basic earnings per common share	157,975	162,816	158,446	163,267
Dilutive effect of:				
Employee stock options	349	572	367	727
Restricted stock	1,197	1,251	1,149	1,369
Shares used to compute diluted earnings per common share	159,521	164,639	159,962	165,363
Basic earnings per common share	$ 2.66	$ 2.19	$ 5.64	$ 3.70
Diluted earnings per common share	$ 2.63	$ 2.16	$ 5.58	$ 3.65
Number of antidilutive stock options and restricted stock excluded from computation	847	562	1,265	819

9. STOCKHOLDERS EQUITY

Dividends

Our Board of Directors has approved a quarterly cash dividend policy. Declaration and payment of future quarterly dividends is at the discretion of the Board and may be adjusted as business needs or market conditions change.

The following table provides details of dividend payments in 2012 and 2013 to date:

Record Date	Payment Date	Amount per Share	Total Amount (in millions)
2012 payments			
12/30/2011	1/31/2012	$ 0.25	$ 41
3/30/2012	4/27/2012	$ 0.25	$ 41
6/29/2012	7/27/2012	$ 0.26	$ 42
9/28/2012	10/26/2012	$ 0.26	$ 41

2013 payments			
12/31/2012	1/25/2013	$ 0.26	$ 42
3/28/2013	4/26/2013	$ 0.26	$ 41
6/28/2013	7/26/2013	$ 0.27	$ 42

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Stock Repurchases

In April 2013, the Board of Directors replaced its previously approved share repurchase authorization of up to $1 billion (of which $557 million remained unused) with the current authorization for repurchases of up to $1 billion of our common shares exclusive of shares repurchased in connection with employee stock plans, expiring on June 30, 2015. Under the current share repurchase authorization, shares may be purchased from time to time at prevailing prices in the open market, by block purchases, or in privately-negotiated transactions, subject to certain regulatory restrictions on volume, pricing, and timing. During the six months ended June 30, 2012, we repurchased 2.73 million shares in open market transactions for $226 million at an average price of $82.78 under previously approved share repurchase authorizations. During the six months ended June 30, 2013, we repurchased 1.22 million shares in open market transactions for $82 million at an average price of $67.59 under a previously approved share repurchase authorization and we repurchased 1.61 million shares in open market transactions for $129 million at an average price of $80.06 under the current authorization. As of July 31, 2013, the remaining authorized amount under the current authorization totaled $871 million.

In connection with employee stock plans, we acquired 0.2 million shares of our common stock for $20 million and 0.6 million shares of our common stock for $52 million during the six months ended June 30, 2013 and 2012, respectively.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income included net unrealized gains on our investment securities of $217 million at June 30, 2013 and $462 million at December 31, 2012. In addition, accumulated other comprehensive income included $8 million at June 30, 2013 and $76 million at December 31, 2012, for an additional liability that would exist on our closed block of long-term care policies if unrealized gains on the sale of the investments backing such products had been realized and the proceeds reinvested at then current yields. Refer to Note 17 to the consolidated financial statements in our 2012 Form 10-K for further discussion of our long-term care policies.

10. INCOME TAXES

The effective income tax rate was 35.7% for the three months ended June 30, 2013, comparable to 36.8% for the three months ended June 30, 2012. For the six months ended June 30, 2013 the effective tax rate was 35.5%, compared to 36.7% for the six months ended June 30, 2012. The tax rate for the three and six months ended June 30, 2013 reflects a change in our estimated tax liability associated with limitations on the deductibility of annual compensation in excess of $500,000 per employee as mandated by the Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act of 2010 (which we collectively refer to as the Health Care Reform Law).

11. DEBT

Credit Agreement

In July 2013, we amended and restated our 5-year $1.0 billion unsecured revolving agreement which was set to expire in November 2016 and replaced it with a new 5-year $1.0 billion unsecured revolving agreement expiring July 2018. Under the new credit agreement, at our option, we can borrow on either a competitive advance basis or a revolving credit basis. The revolving credit portion bears interest at either LIBOR plus a spread or the base rate plus a spread. The LIBOR spread, currently 110 basis points, varies depending on our credit ratings ranging from 90.0 to 150.0 basis points. We also pay an annual facility fee regardless of utilization. This facility fee, currently 15.0 basis points, may fluctuate between 10.0 and 25.0 basis points, depending upon our credit ratings. The competitive advance portion of any borrowings will bear interest at market rates prevailing at the time of borrowing on either a fixed rate or a floating rate based on LIBOR, at our option.

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The terms of the credit agreement include standard provisions related to conditions of borrowing, including a customary material adverse effect clause which could limit our ability to borrow additional funds. In addition, the credit agreement contains customary restrictive and financial covenants as well as customary events of default, including financial covenants regarding the maintenance of a minimum level of net worth of $7.1 billion at June 30, 2013 and a maximum leverage ratio of 3.0:1. We are in compliance with the financial covenants, with actual net worth of $9.3 billion and an actual leverage ratio of 0.9:1, as measured in accordance with the credit agreement as of June 30, 2013. In addition, the credit agreement includes an uncommitted $250 million incremental loan facility.

At June 30, 2013, we had no borrowings outstanding under the previous credit agreement and we had outstanding letters of credit of $5.5 million secured under that credit agreement. No amounts have been drawn on these letters of credit. Accordingly, as of June 30, 2013, we had $994.5 million of remaining borrowing capacity under the previous credit agreement, none of which would be restricted by our financial covenant compliance requirement. We have other customary, arms-length relationships, including financial advisory and banking, with some parties to the credit agreement.

12. GUARANTEES AND CONTINGENCIES

Government Contracts

Our Medicare products, which accounted for approximately 74% of our total premiums and services revenue for the six months ended June 30, 2013, primarily consisted of products covered under the Medicare Advantage and Medicare Part D Prescription Drug Plan contracts with the federal government. These contracts are renewed generally for a calendar year term unless CMS notifies us of its decision not to renew by July 1 of the calendar year in which the contract would end, or we notify CMS of our decision not to renew by the first Monday in June of the calendar year in which the contract would end. All material contracts between Humana and CMS relating to our Medicare products have been renewed for 2014. However, our offerings of products under those contracts are subject to approval by CMS, which we expect in the fall of 2013.

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to health severity. The risk-adjustment model pays more for enrollees with predictably higher costs. Under this model, rates paid to Medicare Advantage plans are based on actuarially determined bids, which include a process whereby our prospective payments are based on a comparison of our beneficiaries risk scores, derived from medical diagnoses, to those enrolled in the government s original Medicare program. Under the risk-adjustment methodology, all Medicare Advantage plans must collect and submit the necessary diagnosis code information from hospital inpatient, hospital outpatient, and physician providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans, which CMS adjusts for coding pattern differences between the health plans and the government fee-for-service program. We generally rely on providers, including certain providers in our network who are our employees, to code their claim submissions with appropriate diagnoses, which we send to CMS as the basis for our payment received from CMS under the actuarial risk-adjustment model. We also rely on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS is continuing to perform audits of various companies selected Medicare Advantage contracts related to this risk adjustment diagnosis data. We refer to these audits as Risk-Adjustment Data Validation Audits, or RADV audits. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to Medicare Advantage plans.

On February 24, 2012, CMS released a Notice of Final Payment Error Calculation Methodology for Part C Medicare Advantage Risk Adjustment Data Validation (RADV) Contract-Level Audits. The payment error calculation methodology provides that, in calculating the economic impact of audit results for a Medicare Advantage contract, if any, the results of the audit sample will be extrapolated to the entire Medicare Advantage contract based

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upon a comparison to benchmark audit data in the government fee-for-service program. This comparison to the government program benchmark audit is necessary to determine the economic impact, if any, of audit results because the government program data set, including any attendant errors that are present in that data set, provides the basis for Medicare Advantage plans risk adjustment to payment rates. CMS already makes other adjustments to payment rates based on a comparison of coding pattern differences between Medicare Advantage plans and the government fee-for-service program data (such as for frequency of coding for certain diagnoses in Medicare Advantage plan data versus the government program data set).

The final methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to the next round of RADV contract level audits to be conducted on 2011 premium payments. Selected Medicare Advantage contracts will be notified of an audit at some point after the close of the final reconciliation for the payment year being audited. The final reconciliation occurs in August of the calendar year following the payment year.

Estimated audit settlements are recorded as a reduction of premiums revenue in our consolidated statements of income, based upon available information. During 2012, we completed internal contract level audits of certain contracts based on the RADV audit methodology prescribed by CMS. Included in these internal contract level audits was an audit of our Private Fee-For-Service business which we used to represent a proxy of the benchmark audit data in the government fee-for-service program which has not yet been released. We based our accrual of estimated audit settlements for contract years 2011 (the first year that application of extrapolated audit results is applicable), 2012, and 2013 on the results of these internal contract level audits. Estimates derived from these results were not material to our results of operations, financial position, or cash flows. However, as indicated, we are awaiting additional guidance from CMS regarding the benchmark audit data in the government fee-for-service program and the identification of our specific Medicare Advantage contracts that will be selected for audit. Accordingly, we cannot determine whether such audits will have a material adverse effect on our results of operations, financial position, or cash flows.

At June 30, 2013, our military services business, which accounted for approximately 1% of our total premiums and services revenue for the six months ended June 30, 2013, primarily consisted of the TRICARE South Region contract. On April 1, 2012, we began delivering services under the new TRICARE South Region contract that the Department of Defense TRICARE Management Activity, or TMA, awarded to us on February 25, 2011. The new 5-year South Region contract, which expires March 31, 2017, is subject to annual renewals on April 1 of each year during its term at the government s option. The TMA has exercised its option to extend the TRICARE South Region contract through March 31, 2014.

The loss of any of the contracts above or significant changes in these programs as a result of legislative or regulatory action, including reductions in premium payments to us, or increases in member benefits without corresponding increases in premium payments to us, may have a material adverse effect on our results of operations, financial position, and cash flows.

Our Medicaid business, which accounted for approximately 3% of our total premiums and services revenue for the six months ended June 30, 2013, primarily consists of contracts in Puerto Rico, Florida, and Kentucky, with the vast majority in Puerto Rico. On June 26, 2013, the Puerto Rico Health Insurance Administration notified us of its election not to renew our three-year Medicaid contracts for the East, Southeast, and Southwest regions which ended June 30, 2013. Contractual transition provisions require the continuation of insurance coverage for beneficiaries through September 30, 2013 and an additional period of time thereafter to process claims. During the second quarter of 2013, we recorded a loss of $31.0 million on these contracts primarily related to premium deficiency and employee termination costs.

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Legal Proceedings and Certain Regulatory Matters

Florida Matters

On December 16, 2010, an individual filed a qui tam suit captioned *United States of America ex rel. Marc Osheroff v. Humana et al.* in the Southern District of Florida, against us, several of our health plan subsidiaries, and certain other companies that operate medical centers in Miami-Dade County, Florida. After the U.S. government declined to intervene, the Court ordered the complaint unsealed, and the individual plaintiff amended his complaint and served the Company on December 8, 2011. The amended complaint alleges certain civil violations by our CAC Medical Centers in Florida, including offering various amenities such as transportation and meals, to Medicare and dual eligible individuals in our community center settings. The amended complaint also alleges civil violations by our Medicare Advantage health plans in Florida, arising from the alleged activities of our CAC Medical Centers and the codefendants in the complaint. The amended complaint seeks damages and penalties on behalf of the United States under the Anti-Inducement and Anti-Kickback Statutes and the False Claims Act. On September 28, 2012, the Court dismissed, with prejudice, all causes of action that were asserted in the suit. On January 31, 2013, the Court denied a motion for reconsideration filed by the individual plaintiff. The deadline for the individual plaintiff to appeal will be set following resolution of certain motions in the district court relating to a co-defendant.

On January 6, 2012, the Civil Division of the United States Attorney s Office for the Southern District of Florida advised us that it is seeking documents and information from us and several of our affiliates relating to several matters including the coding of medical claims by one or more South Florida medical providers, and loans to physician practices. We are responding to the information requests.

Other Lawsuits and Regulatory Matters

Our current and past business practices are subject to review or other investigations by various state insurance and health care regulatory authorities and other state and federal regulatory authorities. These authorities regularly scrutinize the business practices of health insurance and benefits companies. These reviews focus on numerous facets of our business, including claims payment practices, provider contracting, risk adjustment, competitive practices, commission payments, privacy issues, utilization management practices, and sales practices, among others. Some of these reviews have historically resulted in fines imposed on us and some have required changes to some of our practices. We continue to be subject to these reviews, which could result in additional fines or other sanctions being imposed on us or additional changes in some of our practices.

We also are involved in various other lawsuits that arise, for the most part, in the ordinary course of our business operations, certain of which may be styled as class-action lawsuits. Among other matters, this litigation may include employment matters, claims of medical malpractice, bad faith, nonacceptance or termination of providers, anticompetitive practices, improper rate setting, provider contract rate disputes, failure to disclose network discounts and various other provider arrangements, general contractual matters, intellectual property matters, and challenges to subrogation practices. A number of hospitals and other providers have also asserted that, under their network provider contracts, we are not entitled to adjust Medicare Advantage payments in connection with changes in Medicare payment systems in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (commonly referred to as sequestration). Those challenges could lead to arbitration or litigation. Under state guaranty assessment laws, we may be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of insolvent insurance companies that write the same line or lines of business as we do. As a government contractor, we may also be subject to qui tam litigation brought by individuals who seek to sue on behalf of the government, alleging that the government contractor submitted false claims to the government including, among other allegations, resulting from coding and review practices under the Medicare risk-adjustment model. Qui tam litigation is filed under seal to allow the government an opportunity to investigate and to decide if it wishes to intervene and assume control of the

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litigation. If the government does not intervene, the lawsuit is unsealed, and the individual may continue to prosecute the action on his or her own, on behalf of the government. We also are subject to allegations of non-performance of contractual obligations to providers, members, and others, including failure to properly pay claims, improper policy terminations, challenges to our implementation of the Medicare Part D prescription drug program and other litigation.

Personal injury claims, claims for extracontractual damages, care delivery malpractice, and claims arising from medical benefit denials are covered by insurance from our wholly owned captive insurance subsidiary and excess carriers, except to the extent that claimants seek punitive damages, which may not be covered by insurance in certain states in which insurance coverage for punitive damages is not permitted. In addition, insurance coverage for all or certain forms of liability has become increasingly costly and may become unavailable or prohibitively expensive in the future.

We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described above because of the inherently unpredictable nature of legal proceedings, which also may be exacerbated by various factors, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the proceeding is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties (including where it is uncertain how liability, if any, will be shared among multiple defendants); or (vii) there is a wide range of potential outcomes.

The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. Nevertheless, it is reasonably possible that any such outcome of litigation, penalties, fines or other sanctions could be substantial, and the outcome of these matters may have a material adverse effect on our results of operations, financial position, and cash flows, and may also affect our reputation.

13. SEGMENT INFORMATION

On January 1, 2013, we reclassified certain of our businesses to correspond with internal management reporting changes and renamed our Health and Well-Being Services segment as Healthcare Services. Our Employer Group segment now includes our health and wellness businesses, including HumanaVitality and Lifesynch s employee assistance programs, which had historically been reported in our Healthcare Services segment. The Retail segment now includes our contract with CMS to administer the LI-NET program as well as our state-based Medicaid businesses, which had historically been reported in our Other Businesses category. Prior period segment financial information has been recast to conform to the 2013 presentation.

We manage our business with three reportable segments: Retail, Employer Group, and Healthcare Services. In addition, the Other Businesses category includes businesses that are not individually reportable because they do not meet the quantitative thresholds required by generally accepted accounting principles. These segments are based on a combination of the type of health plan customer and adjacent businesses centered on integrated care delivery for our health plans and other customers, as described below. These segment groupings are consistent with information used by our Chief Executive Officer to assess performance and allocate resources.

The Retail segment consists of Medicare and commercial fully-insured medical and specialty health insurance benefits, including dental, vision, and other supplemental health and financial protection products, marketed directly to individuals, and includes our contract with CMS to administer the LI-NET program and state-based Medicaid businesses. The Employer Group segment consists of Medicare and commercial fully-insured medical and specialty health insurance benefits, including dental, vision, and other supplemental health and financial protection products, as well as administrative services only, or ASO, products and our health and wellness products

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primarily marketed to employer groups. The Healthcare Services segment includes services offered to our health plan members as well as to third parties including provider services, pharmacy, integrated behavioral health services, and home care services. The Other Businesses category consists of our military services, primarily our TRICARE South Region contract, Puerto Rico Medicaid, and closed-block long-term care businesses.

Our Healthcare Services intersegment revenues primarily relate to managing prescription drug coverage for members of our other segments through Humana Pharmacy Solutions®, or HPS, and includes the operations of *Right*SourceRx®, our mail order pharmacy business. These revenues consist of the prescription price (ingredient cost plus dispensing fee), including the portion to be settled with the member (co-share) or with the government (subsidies), plus any associated administrative fees. Services revenues related to the distribution of prescriptions by third party retail pharmacies in our networks are recognized when the claim is processed and product revenues from dispensing prescriptions from our mail order pharmacies are recorded when the prescription or product is shipped. Our pharmacy operations, which are responsible for designing pharmacy benefits, including defining member co-share responsibilities, determining formulary listings, selecting and establishing prices charged by retail pharmacies, confirming member eligibility, reviewing drug utilization, and processing claims, act as a principal in the arrangement on behalf of members in our other segments. As principal, our Healthcare Services segment reports revenues on a gross basis including co-share amounts from members collected by third party retail pharmacies at the point of service.

In addition, our Healthcare Services intersegment revenues include revenues earned by certain owned providers derived from risk-based managed care agreements with our health plans. Under these agreements, the provider receives a monthly capitated fee that varies depending on the demographics and health status of the member for each member assigned to these owned providers by our health plans. The owned provider assumes the economic risk of funding the assigned members healthcare services and related administrative costs. Accordingly, our Healthcare Services segment reports provider services related revenues on a gross basis. Capitation fee revenue is recognized in the period in which the assigned members are entitled to receive healthcare services.

We present our consolidated results of operations from the perspective of the health plans. As a result, the cost of providing benefits to our members, whether provided via a third party provider or internally through a stand-alone subsidiary, is classified as benefits expense and excludes the portion of the cost for which the health plans do not bear responsibility, including member co-share amounts and government subsidies of $1.2 billion for the three months ended June 30, 2013 and 2012. For the six months ended June 30, 2013 and 2012, these amounts were $2.5 billion and $2.4 billion, respectively. In addition, depreciation and amortization expense associated with certain businesses in our Healthcare Services segment delivering benefits to our members, primarily associated with our provider services and pharmacy operations, are included with benefits expense. The amount of this expense was $24 million and $9 million for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, the amount of this expense was $46 and $17 million, respectively. These increases primarily were due to amortization expense associated with the December 21, 2012 acquisition of Metropolitan Health Networks, Inc.

Other than those described previously, the accounting policies of each segment are the same and are described in Note 2 to the consolidated financial statements included in our 2012 Form 10-K. Transactions between reportable segments consist of sales of services rendered by our Healthcare Services segment, primarily pharmacy, provider, and behavioral health services, to our Retail and Employer Group customers. Intersegment sales and expenses are recorded at fair value and eliminated in consolidation. Members served by our segments often utilize the same provider networks, enabling us in some instances to obtain more favorable contract terms with providers. Our segments also share indirect costs and assets. As a result, the profitability of each segment is interdependent. We allocate most operating expenses to our segments. Assets and certain corporate income and expenses are not allocated to the segments, including the portion of investment income not supporting segment operations, interest expense on corporate debt, and certain other corporate expenses. These items are managed at a corporate level. These corporate amounts are reported separately from our reportable segments and included with intersegment eliminations in the tables presenting segment results below.

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Our segment results were as follows for the three and six months ended June 30, 2013 and 2012, respectively:

	Retail	Employer Group	Healthcare Services	Other Businesses	Eliminations/ Corporate	Consolidated
			(in millions)			
Three months ended June 30, 2013						
Revenues external customers						
Premiums:						
Medicare Advantage	$ 5,572	$ 1,160	$ 0	$ 0	$ 0	$ 6,732
Medicare stand-alone PDP	785	2	0	0	0	787
Total Medicare	6,357	1,162	0	0	0	7,519
Fully-insured	285	1,273	0	0	0	1,558
Specialty	52	275	0	0	0	327
Military services	0	0	0	5	0	5
Medicaid and other	72	0	0	220	0	292
Total premiums	6,766	2,710	0	225	0	9,701
Services revenue:						
Provider	0	4	313	0	0	317
ASO and other	2	82	0	114	0	198
Pharmacy	0	0	13	0	0	13
Total services revenue	2	86	326	114	0	528
Total revenues external customers	6,768	2,796	326	339	0	10,229
Intersegment revenues						
Services	0	12	2,858	0	(2,870)	0
Products	0	0	680	0	(680)	0
Total intersegment revenues	0	12	3,538	0	(3,550)	0
Investment income	18	10	0	15	49	92
Total revenues	6,786	2,818	3,864	354	(3,501)	10,321
Operating expenses:						
Benefits	5,696	2,235	0	251	(91)	8,091
Operating costs	640	429	3,697	129	(3,434)	1,461
Depreciation and amortization	32	27	36	4	(19)	80

Total operating expenses	6,368	2,691	3,733	384	(3,544)	9,632
Income (loss) from operations	418	127	131	(30)	43	689
Interest expense	0	0	0	0	35	35
Income (loss) before income taxes	$ 418	$ 127	$ 131	$ (30)	$ 8	$ 654

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	Retail	Employer Group	Healthcare Services	Other Businesses	Eliminations/ Corporate	Consolidated
			(in millions)			
Three months ended June 30, 2012						
Revenues external customers						
Premiums:						
Medicare Advantage	$ 5,308	$ 1,011	$ 0	$ 0	$ 0	$ 6,319
Medicare stand-alone PDP	745	2	0	0	0	747
Total Medicare	6,053	1,013	0	0	0	7,066
Fully-insured	250	1,247	0	0	0	1,497
Specialty	42	262	0	0	0	304
Military services	0	0	0	44	0	44
Medicaid and other	45	0	0	210	0	255
Total premiums	6,390	2,522	0	254	0	9,166
Services revenue:						
Provider	0	2	243	0	0	245
ASO and other	5	89	0	91	0	185
Pharmacy	0	0	4	0	0	4
Total services revenue	5	91	247	91	0	434
Total revenues external customers	6,395	2,613	247	345	0	9,600
Intersegment revenues						
Services	1	7	2,359	0	(2,367)	0
Products	0	0	591	0	(591)	0
Total intersegment revenues	1	7	2,950	0	(2,958)	0
Investment income	20	10	0	15	54	99
Total revenues	6,416	2,630	3,197	360	(2,904)	9,699
Operating expenses:						
Benefits	5,378	2,063	0	301	(90)	7,652
Operating costs	638	428	3,049	111	(2,842)	1,384
Depreciation and amortization	33	22	20	4	(6)	73
Total operating expenses	6,049	2,513	3,069	416	(2,938)	9,109
Income (loss) from operations	367	117	128	(56)	34	590
Interest expense	0	0	0	0	26	26

Income (loss) before income taxes	$ 367	$ 117	$ 128	$ (56)	$ 8	$ 564

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Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

	Retail	Employer Group	Healthcare Services	Other Businesses	Eliminations/ Corporate	Consolidated
			(in millions)			
Six months ended June 30, 2013						
Revenues external customers						
Premiums:						
Medicare Advantage	$ 11,308	$ 2,350	$ 0	$ 0	$ 0	$ 13,658
Medicare stand-alone PDP	1,546	4	0	0	0	1,550
Total Medicare	12,854	2,354	0	0	0	15,208
Fully-insured	564	2,541	0	0	0	3,105
Specialty	101	550	0	0	0	651
Military services	0	0	0	16	0	16
Medicaid and other	151	0	0	438	0	589
Total premiums	13,670	5,445	0	454	0	19,569
Services revenue:						
Provider	0	8	619	0	0	627
ASO and other	4	166	0	234	0	404
Pharmacy	0	0	22	0	0	22
Total services revenue	4	174	641	234	0	1,053
Total revenues external customers	13,674	5,619	641	688	0	20,622
Intersegment revenues						
Services	0	23	5,607	0	(5,630)	0
Products	0	0	1,334	0	(1,334)	0
Total intersegment revenues	0	23	6,941	0	(6,964)	0
Investment income	36	21	0	30	98	185
Total revenues	13,710	5,663	7,582	718	(6,866)	20,807
Operating expenses:						
Benefits	11,625	4,412	0	438	(189)	16,286
Operating costs	1,253	869	7,254	244	(6,713)	2,907
Depreciation and amortization	64	50	72	8	(34)	160
Total operating expenses	12,942	5,331	7,326	690	(6,936)	19,353
Income from operations	768	332	256	28	70	1,454
Interest expense	0	0	0	0	70	70

Income before income taxes	$ 768	$ 332	$ 256	$ 28	$ 0	$ 1,384