

HUMANA INC
Form DEF 14A
March 28, 2003
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NOTICE & PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

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ONLY (AS PERMITTED BY RULE 14A-6(E)(2))

HUMANA INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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“ Fee paid previously with preliminary materials.

“ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form of Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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March 28, 2003

Dear Fellow Stockholders:

We would like to invite you to attend the Annual Meeting of Stockholders of Humana Inc. to be held on Thursday, May 15, 2003, at 10:00 a.m., EDT at the Company's headquarters, 500 West Main Street, 25th Floor Auditorium, Louisville, Kentucky and to be web cast via the Internet at the Investor Relations section of the Company's web site www.humana.com. The attached Proxy Statement contains information about the matters to be voted upon. Please give this information your careful attention.

Enclosed are:

- The notice of meeting
- The Proxy Statement
- Annual Report on Form 10-K
- A proxy card
- A postage-paid envelope

We hope you can attend the meeting. However, if you are unable to join us, we urge you to exercise your right as a stockholder and vote. The vote of every stockholder is important.

Stockholders that have access to the Internet have the opportunity to receive this Proxy Statement electronically. If you have not already done so for this year, we encourage you to elect this method of receiving the Proxy Statement next year. Not only will you have access to the document as soon as it is available, but you will be helping the Company reduce expenses.

This Proxy Statement is being mailed or transmitted on or about March 28, 2003 to the Company's stockholders of record.

Sincerely,

David A. Jones

Michael B. McCallister

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Chairman of the Board and Significant Stockholder

Director, President,

Chief Executive Officer
and Significant Stockholder

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Humana Inc.

March 28, 2003

Notice of Annual Meeting of Stockholders

Thursday, May 15, 2003

10:00 a.m., EDT

Humana Building

25th Floor Auditorium

500 West Main Street

Louisville, Kentucky 40202

AGENDA

1. Elect directors;
2. Approve the Company's 2003 Stock Incentive Plan;
3. Approve the Company's 2003 Executive Management Incentive Compensation Plan; and
4. Transact any other business properly brought before the meeting.

Stockholders of record at the close of business on March 19, 2003 will be entitled to vote.

Your vote is important so that as many shares as possible will be represented. Please vote by one of the following methods:

VIA THE INTERNET

BY TELEPHONE

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BY RETURNING THE ENCLOSED PROXY CARD

(see instructions on proxy card).

By Order of the Board of Directors,

Joan O. Lenahan

Secretary

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FREQUENTLY ASKED QUESTIONS

Q: When will this proxy statement be sent to stockholders?

A: This proxy statement is being sent on or about March 28, 2003 to stockholders of record. It will also be available at the Company's web site www.humana.com on that date.

Q: When and where is the annual meeting?

A: The Annual Meeting will be held on Thursday, May 15, 2003 at 10:00 a.m. at 500 W. Main Street, Louisville, Kentucky 40202 at The Humana Building, 25th Floor Auditorium.

Q: What am I voting on?

A: You are being asked to:

- 1.) Elect individuals to serve on the Board of Directors of the Company;
- 2.) Approve the Company's 2003 Stock Incentive Plan;
- 3.) Approve the Company's 2003 Executive Management Incentive Compensation Plan.

The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting. However, if other matters are presented for a vote, the proxies will be voted for these matters in accordance with the judgment of the persons acting under the proxies.

Q: How does the Board recommend I vote on the proposals?

A: The Board recommends that you vote:

- 1.) **FOR** each of the nominees;

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2.) **FOR** the adoption of the Company's 2003 Stock Incentive Plan;

3.) **FOR** the adoption of the Company's 2003 Executive Management Incentive Compensation Plan.

All Shares of Company common stock that are represented at the Annual Meeting by properly executed proxies received before or at the Annual Meeting and not revoked will be voted at the Annual Meeting in accordance with the instructions indicated in the proxies. If no instructions are indicated, the executed proxies will be voted **FOR** approval of the election of the Board of Directors, **FOR** the adoption of the 2003 Stock Incentive Plan and **FOR** the adoption of the 2003 Executive Management Incentive Compensation Plan.

Q: Who is entitled to vote?

A: Anyone who owns Humana Inc. common stock (Shares) as of the close of business on March 19, 2003 (the Record Date) is entitled to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting.

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Q: What is a quorum ?

A: A quorum is a majority of the outstanding shares. Shares may be voted at the Annual Meeting or represented by a signed proxy card. There must be a quorum for the Annual Meeting to be held.

Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining whether a quorum exists. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

The Company believes that pursuant to current New York Stock Exchange regulations, brokers will have discretionary voting power over each item, and therefore there should be no broker non-votes.

Q: How many shares are eligible to vote?

A: As of the Record Date, March 19, 2003, 160,767,347 Shares of Company common stock were outstanding and entitled to vote. Every stockholder is entitled to one vote for each share held.

Q: What if my shares are not registered in my name?

A: If you own your shares in street name, meaning that your broker is actually the record owner, you should receive proxy materials from your broker. When you own your shares in street name, you are deemed a beneficial owner for voting purposes.

Q: How do I vote?

A: There are four ways that you can vote your shares.

1. **Over the Internet.** The Web site for voting is at <http://www.ProxyVote.com>.

In order to vote on the Internet, you need the control number on your proxy card. Each stockholder has a unique control number so we can ensure all voting instructions are genuine and prevent duplicate voting. The Internet voting system is available 24 hours a day, seven days a week, until 11:59 p.m. on Wednesday, May 14, 2003.

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Once you are logged on the Internet voting system, you can record and confirm (or change) your voting instructions. If you use the Internet voting system, you do not need to return your proxy card.

- 2. By telephone.** If you are in the United States or Canada, Registered Holders call 1-800-690-6903; Beneficial Holders call 1-800-454-8683 which are toll-free numbers. The telephone voting system is available 24 hours a day, seven days a week, until 11:59 p.m. on Wednesday, May 14, 2003.

In order to vote by telephone, you need the control number on your proxy card. Each stockholder has a unique control number so that we can ensure all voting instructions are genuine and prevent duplicate voting.

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Once you are logged on the telephone voting system, a series of prompts will tell you how to record and confirm (or change) your voting instructions. If you use the telephone voting system, you do not need to return your proxy card.

3. **By mail.** Mark your voting instructions, sign and date the proxy card and then return it in the postage-paid envelope provided. If you mail your proxy card, we must receive it before 10:00 a.m. EDT on Thursday, May 15, 2003, the day of the Annual Meeting.

If we receive your signed proxy card, but you do not give voting instructions, our representatives will vote your shares FOR approval of the election of all members of the Board of Directors; FOR approval of the 2003 Stock Incentive Plan; and FOR approval of the Company's 2003 Executive Management Incentive Compensation Plan. If any other matters arise during the Annual Meeting that require a vote, the representatives will exercise their discretion.

4. **In person.** Attend the Annual Meeting. However, you can vote by methods 1, 2 or 3 above and still attend the Annual Meeting.
-

Q: How do I vote the shares held in the Humana Common Stock Fund of the Humana 401(k) plan and retirement plan (HRSP)?

A: If you have money in the Humana Common Stock Fund of the HRSP, you may vote. Under the HRSP you do have pass-through voting rights based on your interest the amount of money you have invested in the Humana Common Stock Fund.

You may exercise pass-through voting rights in almost the same way that stockholders may vote their shares, but you have an earlier deadline. If your voting instructions are received by 11:59 p.m. Eastern Time on Tuesday, May 13, 2003, the trustee will submit a proxy that reflects your instructions. If you do not give voting instructions (or give them late), the trustee will vote your interest in the Humana Common Stock Fund in the same proportion as the Shares actually voted.

You may send your instructions to the plan trustee by using the Internet, telephone or mail methods described above. **You cannot vote in person at the Annual Meeting.**

Your voting instructions will be kept confidential under the terms of the HRSP.

Q: How many votes are required to elect each director?

A: Nominees receiving the greatest number of votes duly cast (called a plurality) will be elected.

Abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present at the Annual Meeting, but will not be counted for purposes of calculating a plurality. Therefore, abstentions and broker non-votes will have no impact as to the election of directors.

Q: How many votes are required to approve the Company's 2003 Stock Incentive Plan?

A: Approval of the Company's 2003 Stock Incentive Plan requires the affirmative vote of the holders of a majority of the Shares of Company common stock represented at the Annual Meeting, in person or by proxy, and entitled to vote.

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Abstentions and broker non-votes, if any, will be treated as being present and entitled to vote on this matter and, therefore, will have the effect of votes against this proposal.

Q: How many votes are required to approve the Company's 2003 Executive Management Incentive Compensation Plan?

A: Approval of the 2003 Executive Management Incentive Compensation Plan requires the affirmative vote of the holders of a majority of the Shares of Company common stock represented at the Annual Meeting, in person or by proxy, and entitled to vote.

Abstentions and broker non-votes, if any, will be treated as being present and entitled to vote on this matter and, therefore, will have the effect of votes against this proposal.

Q: Who will count the votes?

A: Automatic Data Processing Investor Communication Services (ADP), and D. F. King & Co., Inc. will tabulate the votes cast by proxy. In addition, the Company's Inspectors of Election will tabulate the votes cast at the Annual Meeting together with the votes cast by proxy.

Q: How do I revoke my proxy?

A: You have the right to revoke your proxy at any time before the meeting.

To do so, will depend upon how you originally voted:

By Internet simply log in and resubmit your vote ADP will only count the last instructions;

By Telephone simply sign in and resubmit your vote ADP will only count the last instructions;

By Mail you must give written notice of revocation to the Automatic Data Processing, Investor Communication Services, 51 Mercedes Way, Edgewood, NY 11717 or by fax at (515) 254-7733, submit another properly signed proxy with a more recent date, or vote in person at the meeting. For written and fax notices, you must include the control number that is printed on the upper

portion of the proxy card.

Q: What if I received more than one set of materials?

A: The Securities and Exchange Commission recently approved a new rule concerning the delivery of annual disclosure documents. The rule allows us to send a single set of our annual report and proxy statement to any household at which two or more stockholders reside if we believe the stockholders are members of the same family. This rule benefits both you and Humana. It reduces the volume of duplicate information received at your household and helps to reduce Humana's expenses. The rule applies to Humana's annual reports, proxy statements or information statements. Each stockholder will continue to receive a separate proxy card or voting instruction card.

If your household received a single set of disclosure documents for this year, but you would prefer to receive your own copy; or if you share an address with another Humana stockholder and together both of you would like to receive only a single set of Humana's annual disclosure documents for future mailings, follow these instructions:

Please contact ADP and inform them of your request by calling them at (888) 603-5847 or writing them at Householding Department, 51 Mercedes Way, Edgewood, NY 11717. Be sure to identify Humana and include your name, address, the name of your brokerage firm (if applicable) and your account number.

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Q: When are the stockholder proposals for the 2004 Annual Meeting due?

A: Stockholder proposals for inclusion in the proxy materials relating to the annual meeting of stockholders to be held in May 2004 must be submitted to the Corporate Secretary in writing no later than November 28, 2003. Proposals should be submitted to Joan O. Lenahan, Secretary, Humana Inc., 500 W. Main Street, Louisville, KY 40202.

Q: How much did this proxy solicitation cost?

A: D. F. King & Co., Inc. was hired to assist in the distribution of proxy materials and solicitation of votes for \$10,000 plus expenses.

The Company has also engaged ADP to assist in the distribution of proxy materials and the accumulation of votes through the Internet, telephone and coordination of mail votes for approximately \$25,000 plus expenses.

The Company will reimburse stockbrokers, other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation material to the stockholders.

Q: How can I obtain additional information about the Company?

A: Included with this mailing is a copy of our Annual Report on Form 10-K for the year ended December 31, 2002. The Company's Annual Report on Form 10-K and all other filings with the Securities and Exchange Commission may also be accessed via the Investor Relations section on the Company's web site at www.humana.com. We encourage you to visit our web site.

Q: Where can I find voting results for this Annual Meeting?

A: The voting results will be published in the Company's Form 10-Q for the period ending June 30, 2003 which will be filed with the Securities and Exchange Commission on or before August 14, 2003.

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The Board of Directors of Humana Inc. (the Company), in accordance with the provisions of the Company's Articles of Incorporation and Bylaws, has determined that the number of directors to be elected at the Annual Meeting of the Company shall be seven. The directors are elected to hold office until the Annual Meeting of Stockholders in 2004 and until a successor is elected and qualified.

If any nominee becomes unable to serve for any reason (which is not anticipated), the Shares of common stock represented by the enclosed proxy may be voted for the substituted nominee as may be designated by the Board of Directors.

The following table shows certain information concerning the nominees at March 19, 2003.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>First Elected</u> <u>Director</u>
David A. Jones	71	Chairman of the Board	08/61
David A. Jones, Jr.	45	Vice Chairman of the Board	05/93
Michael E. Gellert	71	Director	02/68
John R. Hall	70	Director	05/92
Irwin Lerner	72	Director	11/93
Michael B. McCallister	50	Director, President & Chief Executive Officer	02/00
W. Ann Reynolds, Ph.D.	65	Director	01/91

David A. Jones has been Chairman of the Board of the Company since its inception in August 1961 (including a predecessor company) and served as Chief Executive Officer of the Company from its inception until December 1997, when he retired. Due to the resignation of the Company's former President and Chief Executive Officer in August 1999, he served as Interim Chief Executive Officer from that time until February 2000, when Mr. McCallister was elected. Mr. Jones is currently a director of Abbott Laboratories, but is scheduled to retire in April 2003.

David A. Jones, Jr. was elected Vice Chairman of the Board of the Company in September 1996. He is Chairman and Managing Director of Chrysalis Ventures, LLC, in Louisville, Kentucky, and is the son of David A. Jones, Chairman of the Board. He is Chairman of the Board of High Speed Access Corp.

Michael E. Gellert is a general partner of Windcrest Partners, a private investment partnership in New York, New York, having held that position since April 1967. From January 1958 until his retirement in October 1989, Mr. Gellert served in executive capacities with Drexel Burnham Lambert and its predecessors in New York, New York. Mr. Gellert is also a director of Dalet SA, a publicly held French company; Devon Energy Corporation; High Speed Access Corp.; Seacor Smit Inc.; Six Flags Inc.; Smith Barney World Funds, Inc.; and Travelers Series Fund, Inc.

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John R. Hall is the retired Chairman of the Board and Chief Executive Officer of Ashland Inc., positions he held since 1981 until his retirement in 1996. He is also a member of the American Petroleum Institute Executive Committee, a member of the Transylvania University Board of Trustees and past President of Vanderbilt University Board of Trustees and remains a trustee. Mr. Hall retired as a director of Arch Coal, Inc. in April 1999. He was named non-executive chairman of Bank One Corporation in December 1999, a position he held for three months. He is also a director of Bank One Corporation; The Canada Life Assurance Company; CSX Corporation; GrafTech International f/k/a UCAR International Inc.; and USEC, Inc.

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Irwin Lerner is the retired Chairman of the Board and Executive Committee of Hoffmann-La Roche Inc. From April 1980 to December 1992, Mr. Lerner was President and Chief Executive Officer of Hoffmann-La Roche Inc. He is a Distinguished Executive-in-Residence at the Rutgers University Graduate School of Management. He is also the Chairman of Medarex Inc. and a director of Covance Inc., Nektar Therapeutic Inc. and V. I. Technologies, Inc.

Michael B. McCallister was elected President, Chief Executive Officer and a member of the Board of Directors of the Company in February 2000. Prior to that, Mr. McCallister served as Senior Vice President Health System Management from January 1998 to February 2000 and as Division I President from July 1996 to January 1998. Mr. McCallister joined the Company in June 1974.

W. Ann Reynolds, Ph.D. is the Director of the Center for Community Outreach Development and Professor of Biology at The University of Alabama at Birmingham, positions she has held since August 2002. Prior to that she was President of The University of Alabama at Birmingham from September 1997 through June 2002. Before that, she served as Chancellor of the City University of New York, in New York, New York for seven years and Chancellor of the California State University system for eight years. She is also a director of Abbott Laboratories; Maytag Corporation; and Owens-Corning Fiberglass Corporation.

The information given in this Proxy Statement concerning the nominees is based upon statements made or confirmed to the Company by or on behalf of the nominees.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR ALL NOMINEES.

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During 2002, the Board of Directors met six times. All directors attended at least 75% of the scheduled Board of Directors meetings and meetings held by Committees of which they were members.

DIRECTOR COMPENSATION

The following table shows compensation for Directors who are not employees:

Compensation

Annual Board Retainer	\$17,500
(Except for Chairman)	\$25,000 Fair Market Value worth of Humana Stock first business day of January (1)
Annual Stock Option Grant (2)	5,000 stock options
Annual Fee for Committee Chairperson	
(except Executive Committee)	\$3,000
Annual Fee Executive Committee Members	\$5,000
Board Attendance Fee (per meeting)	\$2,500
Committee Attendance Fee (per meeting)	\$1,000

(1) Each director except Mr. Jones received 2,165 shares in 2002. Mr. Jones does not participate due to his retainer provisions as Chairman described below.

(2) The director options granted on January 2, 2002 had an exercise price of \$11.55, the fair market value on that date.

In addition, the Company paid certain local taxes that averaged approximately \$1,396 per outside director, excluding Mr. Jones amount which is described below.

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In 2002, as the Company's Chairman of the Board of Directors, Mr. Jones received a \$200,000 annual cash retainer in lieu of attendance fees and the annual board retainer fee outlined above. Mr. Jones receives the annual stock option grant described above and receives fees as an Executive Committee member. In addition to Board of Directors' responsibilities, Mr. Jones' compensation reflects his continuing consultation on major initiatives of the Company and on corporate strategy and policy, and his external activities, including preserving and enhancing the image of the Company within the health benefits industry. Mr. Jones was provided office space, with an annual value of approximately \$43,500 as well as administrative and secretarial support, at a cost for 2002 of approximately \$204,765. In addition, during 2002, the Company provided Mr. Jones with life and accidental death insurance, parking, occupational tax, and membership to the Company's fitness club at a cost of \$16,116. Pursuant to his retirement in December 1997, Mr. Jones has elected to receive a joint and survivor annuity payment with a minimum of twenty years' payments under the Officers' Target Retirement Plan (OTRP). Under the OTRP, Mr. Jones received approximately \$56,800 per month in 2002. The Company will continue to provide the benefits and arrangements described above to Mr. Jones for at least as long as he serves as Chairman of the Board. In December 1999, the Board believed it was in the best interest to set out the terms and conditions as described above in a written agreement. This agreement formalizes the terms of Mr. Jones' compensation as

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described herein until he no longer serves as Chairman of the Board or until December 31, 2004, whichever is longer.

In connection with his position as Vice Chairman of the Board, David A. Jones, Jr. was reimbursed \$30,000 for office expenses incurred in 2002.

The following table shows benefits for Directors who are not employees:

Benefits

Charitable Contributions	Company matches up to \$20,000
Group Life and Accidental Death Insurance	\$150,000
Business Travel Accident Insurance	\$250,000

Directors may elect to participate in the medical and dental benefit programs offered to all employees of the Company at a comparable rate as paid by employees. One director nominee has elected this option.

The Company also maintains the 1989 Stock Option Plan for Non-employee Directors (which has expired) and the 1996 Stock Option Incentive Plan pursuant to which options to purchase 15,000 Shares of the common stock are granted at 100% of fair market value to each Non-employee Director upon his or her initial election to the Board of Directors. In addition, options to purchase 5,000 Shares of the common stock are granted on the first business day of each January at 100% of fair market value to each Non-employee Director.

Non-employee Directors elected subsequent to 1998 do not receive any retirement benefits. The current directors have retirement benefits that are grandfathered under the Company's Retirement Policy (the Policy). The Policy provides that a director who is not an employee must retire at the annual meeting following his or her seventy-third birthday. The retiring director is entitled to elect to receive either: (1) an annual retirement benefit for the life of the director in the amount of \$38,000, the annual retainer fee in effect for 1997; or (2) in lieu thereof, an actuarially equivalent joint and survivor annuity payment. In addition, each retiring director also receives an annual matching charitable contribution benefit of 50% of the annual retirement benefit. Benefits are prorated for any retiring director who has not served at least ten years on the Board of Directors. For fiscal year 2002, the Company paid and will continue to pay benefits under the Policy to three former directors and has a separate letter agreement that was executed with one other former director before the adoption of the Policy. The benefits under the letter agreement are comparable to those under the Policy.

BOARD COMMITTEES

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The Company has Audit, Executive, Investment, Medical Affairs, Nominating & Corporate Governance, and Organization & Compensation Committees of its Board of Directors. The Company has adopted written charters for each of the Board Committees. The members of the Audit Committee and Organization & Compensation Committee are independent, outside directors as currently defined by the New York Stock Exchange and the Securities and Exchange Commission, respectively. The Company believes that the Nominating Committee is comprised solely of independent directors, none of whom have any relationship with the Company that would interfere with his or her ability to exercise independent judgement in nominating candidates for Board membership. Additional information regarding the Audit Committee and the Organization & Compensation Committee is included in this Proxy Statement under the

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caption Audit Committee Report and Organization & Compensation Committee Report . The number of meetings held in 2002, and membership as of the Record Date were as follows:

Current Committee Membership and Meetings Held During 2002

	Audit	Executive	Investment	Medical Affairs	Nominating & Corporate Governance	Organization & Compensation
Number of Meetings						
Held in 2002	6	3	2	3	4	4
NAME						
David A. Jones		C				
David A. Jones, Jr.		M	C	M	M	
Charles M. Brewer(1)	M				M	M
Michael E. Gellert	C	M	M			M
John R. Hall	M				C	M
Irwin Lerner	M			M		C
Michael B. McCallister		M				
W. Ann Reynolds, Ph.D.			M	C	M	

C = Chair

M = Member

(1) Will not stand for re-election

The primary functions of each Board Committee follows:

Audit Committee

Recommends to the Board the appointment of the Company's independent accountants;

Meets with the independent accountants and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized and, at the conclusion, reviews the results of the audit;

Reviews with the independent accountants, the Company's Internal Audit Department, and financial and accounting personnel, the effectiveness of the accounting and financial controls of the Company and makes recommendations for the improvement of

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such internal control procedures;

Reviews the internal audit function of the Company including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the independent accountants;

Receives prior to each meeting, a summary of findings from completed internal audits and progress reports on the internal audit plan;

Reviews the financial statements and other information contained in the annual report and other reports to stockholders with management and the independent accountants to determine that the external auditors are satisfied with the disclosure and content of the financial statements to be presented to the stockholders and reviews any changes in accounting principles;

Provides an opportunity to confer independently with the internal auditors and the independent accountants;

Determines the appropriateness of and approves the fees for audit and permissible non-audit services performed by the independent accountants; and

Meets in executive session.

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Executive Committee

Exercises all the powers of the Board of Directors except as otherwise provided by Delaware law and the Company's Bylaws during intervals between meetings of the Board.

Investment Committee

Establishes investment objectives and policies for the various investment portfolios of the Company and investment options available under various employee benefit plans; and
Reviews investment results.

Medical Affairs Committee

Reviews members' needs in the facilitation of health services and oversees their implementation;
Reviews the effectiveness of the Company's affiliations with physicians and the medical management processes designed to improve the quality of care delivered to the Company's members; and
Reviews processes which allow the Company to maintain accreditation and meet quality-based and privacy regulatory requirements.

Nominating & Corporate Governance Committee

Recommends to the full Board criteria for the selection and qualification of the members of the Board;
Evaluates and recommends for nomination by the Board candidates to be proposed for election by the stockholders at each annual meeting;
Seeks out and assists in the attraction of highly qualified candidates to serve on the Board;
Recommends for Board approval candidates to fill vacancies on the Board which occur between annual meetings;
Studies and reviews with management the overall effectiveness of the organization of the Board and the conduct of its business, and makes appropriate recommendations to the Board; and
Reviews the overall relationship of the Board and management.

Organization & Compensation Committee

Reviews and approves compensation for the Chief Executive Officer of the Company;
Administers the Company's equity compensation plans;
Reports to the Board regarding performance appraisals and compensation guidelines concerning the Chief Executive Officer and other executive officers;
Reviews and recommends to the Board additional executive compensation and employee benefit programs, including incentive-based compensation programs, equity-based programs, non-cash compensation programs, retirement and savings

plans, severance programs, and any material changes to existing programs; and
Reviews and approves legally mandated changes in existing employee benefit programs.

CORPORATE GOVERNANCE

The Board's corporate governance guidelines incorporate principles by which the Board operates. These are not a set of legally binding obligations, but guidelines within which the Board may conduct its business. They should be interpreted in the context of all applicable laws

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and the Company's articles of incorporation, bylaws and other governing legal documents. The guidelines are as follows:

Guidelines:

The Board of Directors has a Nominating & Corporate Governance Committee.

A majority of the Directors should come from outside the Company and independence is important in the selection of new candidates. The Board selects candidates and extends invitations to join the Board.

The Board of Directors meets regularly on a bi-monthly basis with special sessions scheduled as required.

The Chairman and the President set the Board agenda, and directors may suggest items for inclusion. Information is made available to the Board of Directors a reasonable period of time before each meeting.

Only independent, outside directors serve on the Company's Audit Committee and Organization & Compensation Committee.

All directors stand for election every year.

Directors have an annual written self-evaluation process.

Outside directors meet without management in executive session.

The Board of Directors reviews and approves a one-year operating plan for the Company.

Code of Ethics:

A comprehensive Code of Ethics has been in place since 1995.

A Company-wide confidential telephone hotline for anonymous reporting of complaints and concerns by employees was established in 1995.

Organization & Compensation Committee Interlocks and Insider Participation

All members of the Organization & Compensation Committee are Non-employee directors and no member has any direct or indirect material interest in or a relationship with the Company other than stockholdings as discussed herein and as related to his position as director. During 2002, no member of the Organization & Compensation Committee had a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Table of Contents**STOCK OWNERSHIP INFORMATION****SECTION 16(a)****BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 (Exchange Act) requires the Company s directors and executive officers, and persons who beneficially own more than ten percent of a registered class of the Company s equity securities, to file with the Securities and Exchange Commission (Commission) and the New York Stock Exchange, reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. As of August 29, 2002 these reports generally are due within two business days of the transaction. Executive officers, directors, and greater than ten percent stockholders are required to furnish the Company with copies of all the forms they file.

During the year ended December 31, 2002, based upon the Company s knowledge of stock transfers, review of copies of these reports and written representations by the persons furnished to the Company, all executive officers, directors, and greater than ten percent beneficial owners of the Company s common stock complied with Section 16(a) filing requirements applicable to the Company, except for the following:

Due to an administrative oversight, Bruce J. Goodman, Senior Vice President and Chief Service and Information Officer, was granted a stock option on November 7, 2002, which was reported on a Form 4 filed with the Commission on December 30, 2002.

The Company has a program to oversee the compliance of its executive officers and directors in their reporting obligations. The Company files its reports of ownership with the Commission electronically via the EDGAR system.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL**OWNERS OF COMPANY COMMON STOCK****Principal Stockholders of the Company**

The following table shows certain data with respect to those persons known by the Company to be beneficial owners of 5% or more of the outstanding common stock of the Company as of the Record Date.

Wellington Management Company, LLP	13,670,500 shares	8.5%(1)(2)
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75 State Street

Boston, MA 02109

Vanguard Specialized Funds-

Vanguard Health Care Fund

P.O. Box 2600 V26

Valley Forge, PA 19482

9,995,000 shares

6.2%(1)(3)

AXA Financial Inc. (and Related Companies filing as a Group)

1290 Avenue of the Americas

New York, NY 10104

9,201,722 shares

5.7%(1)(4)

David A. Jones, Chairman of the Board

Humana Inc.

500 West Main Street

Louisville, KY 40202

8,107,187 shares

5.0%(1)(5)

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- (1) The percentage is based on 160,767,347 shares outstanding as of the Record Date (March 19, 2003).
- (2) Based upon a Form 13G/A filed with the Commission for the year ended December 31, 2002, Wellington Management Company, LLP has shared power to vote 2,277,000 shares; has shared dispositive power over 13,670,500 shares.
- (3) Based upon a Form 13G/A filed with the Commission for the year ended December 31, 2002, Vanguard Specialized Funds-Vanguard Health Care Fund has sole power to vote and shared dispositive power over 9,995,000 shares.
- (4) Based upon a Form 13G filed with the Commission for the year ended December 31, 2002, AXA Financial, Inc. (and Related Companies filing as a Group) has sole power to vote or direct to vote 6,913,662 shares; has shared power to vote or direct to vote 212,300 shares; has sole dispositive power over 7,966,462 shares; and has shared power to dispose of 1,235,260 shares. See Form 13G for additional information concerning members of the Group.
- (5) Includes 108,334 shares which may be acquired through the exercise of currently exercisable options and excludes 31,385 shares held by Mr. Jones' wife directly and by a trust for her behalf.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table shows stock ownership by each of the Company's nominees for directors, each Named Executive Officer, and by the directors and executive officers as a group as of March 19, 2003, unless otherwise indicated.

	Company Common	
	Stock Beneficially	
	Owned as of	Percent of
	March 19, 2003 (1) (2)	Class (3)
David A. Jones(4)	8,107,187	5.0
David A. Jones, Jr.	489,476	
Michael E. Gellert	177,535	
John R. Hall	67,423	
Irwin Lerner	82,835	
Michael B. McCallister	1,314,406	
W. Ann Reynolds, Ph.D.	61,522	
James E. Murray	578,731	
Jonathan T. Lord, M.D.	220,616	
Bruce J. Goodman	235,242	
James H. Bloem	127,177	
All directors and executive officers as a group (17 in number, including those named above (Group))	12,771,658	7.9

(1) Beneficial ownership of Shares of Company common stock, for purposes of this Proxy Statement, includes Shares of Company common stock as to which a person has or shares voting and/or investment power. Therefore, all restricted stock

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for which a person has voting power and all shares in the Humana Retirement and Savings Plan (the HRSP) are included. See the Summary Compensation Table in the Proxy Statement for additional information. These footnotes describe whenever an individual shares voting and/or investment power over the Shares of Company common stock beneficially owned by them.

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The number of Shares of Company common stock listed includes:

- (a) Certain Shares of Company common stock held for the benefit of the individuals in the HRSP as of March 1, 2003, over which the employee participant has voting power and investment power. They are as follows:

Michael B. McCallister	38,844
James E. Murray	15,394
Jonathan T. Lord, M.D.	616
Bruce J. Goodman	3,528
James H. Bloem	509
Group	93,190

- (b) Shares of Company common stock which may be acquired by these individuals through the exercise of options, which are exercisable currently or within 60 days after March 19, 2003 under the Company's 1989 Stock Option Plan for Employees, the 1989 Stock Option Plan for Non-employee Directors and the 1996 Stock Incentive Plan for Employees (collectively the "Stock Option Plans"). They are as follows:

David A. Jones	108,334
David A. Jones, Jr.	260,000
Michael E. Gellert	45,000
John R. Hall	45,000
Irwin Lerner	55,000
Michael B. McCallister	1,019,527
W. Ann Reynolds, Ph.D.	45,000
James E. Murray	390,472
Jonathan T. Lord, M.D.	120,000
Bruce J. Goodman	72,500
James H. Bloem	51,668
Group	2,934,433

- (2) Excludes Shares of Company common stock held by directors' spouses and/or family trusts for which they disclaim beneficial ownership:

David A. Jones	31,385
David A. Jones, Jr.	72
Michael E. Gellert	2,000

- (3) Unless indicated, less than 1% of the class.

- (4) In March 2001, Mr. Jones entered into a Forward Agreement covering 451,700 of his shares of Company common stock. Upon expiration, Mr. Jones, at his election, may settle the Forward Agreement in either cash or stock. Depending upon the price at expiration, he must relinquish up to 451,700 shares of Company common stock. This Forward Agreement expires in March 2004. In March 2002, Mr. Jones entered into Section 10b5-1 Trading Plans covering up to 80,000 shares of Humana common stock per month for a one-year period (which expired in February 2003). Mr. Jones sold 640,000 shares of Humana Inc. common stock during the term of the 10b5-1 Trading Period. Mr. Jones' ownership excludes Shares of Company common stock owned by the adult children of Mr. Jones over which Mr. Jones has no voting or investment power.

Table of Contents**EXECUTIVE COMPENSATION****EXECUTIVE COMPENSATION OF THE COMPANY**

The following Summary Compensation Table shows the compensation earned for the time period served as an executive officer during the past three years by: (1) the President and Chief Executive Officer; and (2) each of the four other highest compensated executive officers of the Company serving at December 31, 2002, (collectively, the Named Executive Officers).

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			
		Salary \$	Bonus \$	Other Annual Compensation(1) \$	Restricted Stock Awards(2) #	Value of Restricted Stock at Date Of Grant(2) \$	Number of Securities Underlying Options #	All Other Compensation(1) \$
Michael B. McCallister President & Chief Executive Officer	2002	700,000	612,500	59,852			50,000	276,620
	2001	655,890	819,863	44,176				102,677
	2000	624,590	390,369	46,793	225,000	1,589,063	500,000	76,189
James E. Murray Chief Operating Officer Market & Business Segment Operations	2002	470,000	359,023	32,248			20,000	312,480
	2001	470,000	470,000	29,265				87,934
	2000	469,590	235,000	31,504	150,000	1,059,375		58,932
Jonathan T. Lord, M.D. Sr. Vice President & Chief Innovation Officer	2002	425,000	279,951	35,839			30,000	42,376
	2001	425,000	361,250	20,011				
	2000	291,462	180,625	60,731	100,000	706,250	150,000	4,615
Bruce J. Goodman Sr. Vice President & Chief Service & Information Officer	2002	378,301	216,732	12,853			60,000	132,866
	2001	325,890	244,418	16,603				27,668
	2000	319,945	270,000	23,509	150,000	1,059,375		11,094
James H. Bloem Sr. Vice President & Chief Financial Officer (elected February 2001)	2002	385,000	220,570	13,619			30,000	19,307
	2001	332,370	249,277	51,369	75,000	852,500	75,000	
	2000							

(1)

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The amounts listed under Other Annual Compensation include Company provided transportation, executive insurance, relocation expenses, and miscellaneous items, which are listed in the table below. The amounts listed under All Other Compensation include the value of the 1998 Restricted Stock Award which vested February 14, 2002, and also represents amounts contributed or accrued to the HRSP and contributions and earnings related to the Supplemental Executive Retirement Plan and Thrift Excess Plan (collectively Long Term Benefit Plans). The breakdown is listed in the table below.

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	Year	Other Annual Compensation			All Other Compensation Long Term Benefit Plan		
		Transportation \$	Exec. Ins. \$	Relocation/Misc. \$	Value of Restricted Stock at Vesting Date \$ (3)	Contributions \$	Earnings/(Losses) \$
Michael B. McCallister	2002	58,047	1,176	629	157,240	164,944	(45,564)
	2001	40,279	2,198	1,699		112,802	(10,125)
	2000	44,693	2,100			65,672	10,517
James E. Murray	2002	30,829	790	629	196,550	101,159	14,771
	2001	25,987	1,579	1,699		75,489	12,445
	2000	29,925	1,579			49,172	9,760
Jonathan T. Lord, M.D.	2002	35,125	714			41,947	429
	2001	17,612	1,428	971			
	2000	6,865	952	52,914		4,615	
Bruce J. Goodman	2002	12,219	634		65,517	66,106	1,243
	2001	15,514	1,089			26,992	676
	2000	16,531	1,076	5,902		11,094	
James H. Bloem	2002	11,359	647	1,613		19,307	
	2001	9,289	1,116	40,964			
	2000						

- (2) The Value of the Restricted Stock at Date of Grant is calculated based on the average of the high and low trading prices of the Company common stock (fair market value) on the date of grant, less amounts paid by the recipient. The aggregate number of shares and the value at December 31, 2002 of unvested restricted shares (excluding the 1998 awards listed below) held by the Named Executive Officers are as follows:

Michael B. McCallister	225,000 shares	\$2,271,375
James E. Murray	150,000 shares	\$1,514,250
Jonathon T. Lord, M.D.	100,000 shares	\$1,009,500
Bruce J. Goodman	150,000 shares	\$1,514,250
James H. Bloem	75,000 shares	\$ 757,125

These amounts are based on the fair market value of the Company common stock of \$10.095 as of December 31, 2002. The 2000 restricted stock awards for Messrs. McCallister and Murray, Dr. Lord, Mr. Goodman and the 2001 restricted stock awards for Mr. Bloem contain a non-compete provision. The 2000 restricted stock awards will vest on August 7, 2003 if each is still employed by the Company on such date. Mr. Bloem's 2001 restricted stock awards will vest three years from the corresponding dates of grant (February 1, 2001 and July 12, 2001) if he remains employed by the Company until then.

The Company does not pay any dividends, but holders of restricted stock would be entitled to dividends, if paid.

- (3) The 1998 restricted stock awards vested in February 2002, based on achievement of the Company's 2001 management incentive plan goal as follows:

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Michael B. McCallister	12,000 shares
James E. Murray	15,000 shares
Bruce J. Goodman	5,000 shares

Table of Contents**2002 STOCK OPTION GRANTS**

The following table provides information on stock options granted to the Named Executive Officers during the year ended December 31, 2002.

	Number of Securities Underlying Options Granted (1)	% of Total Options Granted To Employees In 2002 %	Exercise Price Per Share (2)	Expiration Date	Potential Realizable	
					Value at Assumed	
					Annual Rates of	
					Stock Price	
					Appreciation For	
					Option Term (3)	
					5%	10%
	#	%	\$	Date	\$	\$
Michael B. McCallister	50,000	3.2	12.995	03/13/12	408,624	1,035,534
James E. Murray	20,000	1.3	12.995	03/13/12	163,450	414,214
Jonathan T. Lord, M.D.	30,000	1.9	12.995	03/13/12	245,175	621,321
Bruce J. Goodman	30,000	1.9	12.995	03/13/12	245,175	598,371
	30,000	1.9	12.515	11/07/12	236,118	621,320
	60,000	3.8			481,293	1,219,691
James H. Bloem	30,000	1.9	12.995	03/13/12	245,175	621,321

- (1) All options become exercisable in equal annual one-third installments from date of grant. In the event of a Change in Control of the Company, all outstanding stock options become fully vested and immediately exercisable in their entirety. In addition, during the 60-day period following the Change in Control, any stock option (or portion thereof) may generally be surrendered for cancellation for a payment of the difference between the fair market value and option price as more fully described in the 1996 Plan.
- (2) The exercise price per share for the options is equal to the fair market value of the common stock on the date of grant. The exercise price may be paid in cash or, at the discretion of the Organization & Compensation Committee, in Shares of Company common stock valued at the fair market value on the date immediately preceding the date of exercise, or any combination thereof.
- (3) The dollar amounts in this table represent the potential realizable value of the stock options granted, assuming that the market price of the Shares of Company common stock appreciate in value from the date of grant to the end of the option term at annualized rates of 5% and 10%. Therefore, these amounts are not the actual value of the options granted and are not intended to forecast possible future appreciation, if any, of Company common stock prices. No assurances can be given that

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the stock price will appreciate at these rates or experience any appreciation at all. The fair market value of the Company's common stock was \$10.095 on December 31, 2002.

Table of Contents**2002 OPTION EXERCISES AND YEAR-END VALUES**

The following table provides information on the value of stock options exercised during the year ended December 31, 2002 and the year-end values of unexercised options for the Named Executive Officers.

	Shares Acquired		Number of Securities		Value of Unexercised	
			Underlying Unexercised		In-the-Money Options	
	On Exercise	Value Realized	Options at Year End		at Year End (1)	
			Exercisable #	Unexercisable #	Exercisable	Unexercisable
#	\$			\$	\$	
Michael B. McCallister			836,194	216,666	1,767,085	531,448
James E. Murray			383,805	20,000	704,183	
Jonathan T. Lord, M.D.	40,000	173,450	60,000	80,000	208,200	173,500
Bruce J. Goodman			50,000	85,000	12,530	
James H. Bloem			25,001	79,999	3,292	6,583

- (1) The Value of Unexercised In-the-Money Options is based on the difference between the December 31, 2002 fair market value of the Company's common stock of \$10.095 as reported on the New York Stock Exchange Composite Tape, and the exercise price of the options. If the December 31, 2002 price of \$10.095 is less than the per share exercise price, no amounts are shown.

Table of Contents**OFFICERS TARGET RETIREMENT PLAN**

The Company has in effect the Officers Target Retirement Plan (OTRP), which is a non-qualified, unfunded plan providing supplemental retirement benefits to each elected Company officer, including the Named Executive Officers, and other designated key employees.

The following table illustrates the estimated maximum annual benefit which would be payable at age 65 to a participant, at various average compensation levels for specified years of credited service, under the OTRP:

Estimated OTRP Maximum Annual Benefit at Age 65**For Years of Credited Service Shown (1)(2)**

Average Compensation	10 years	15 Years	20 Years	25 Years	30 Years
\$ 100,000	\$ 16,700	\$ 25,050	\$ 33,400	\$ 41,750	\$ 50,000
200,000	33,400	50,100	66,800	83,500	100,000
300,000	50,100	75,150	100,200	125,250	150,000
400,000	66,800	100,200	133,600	167,000	200,000
500,000	83,500	125,250	167,000	208,750	250,000
600,000	100,200	150,300	200,400	250,500	300,000
700,000	116,900	175,350	233,800	292,250	350,000
1,000,000	167,000	250,500	334,000	417,500	500,000
1,500,000	250,500	375,750	501,000	626,250	750,000
2,000,000	334,000	501,000	668,000	835,000	1,000,000

- (1) These estimates are based on the assumption that (a) the OTRP will be continued under its present terms; (b) the participant will continue with the Company until, and retire at, age 65; and (c) the participant elects to receive an annual distribution instead of a lump sum payment.
- (2) The amounts shown are the total targeted retirement benefit and are reduced by benefits received under the Retirement Account in the HRSP, the Supplemental Executive Retirement Plan and Social Security benefits.

The maximum years of service credited under the OTRP are 30 years, unless otherwise changed by the Board of Directors. As of January 1, 2003, the years of service for each of the Named Executive Officers are as follows: Michael B. McCallister 29; James E. Murray 13; Jonathan T. Lord, M.D. 3; Bruce J. Goodman 4; and James H. Bloem 2.

AGREEMENTS WITH DIRECTORS AND OFFICERS

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In September 2000, the Company entered into an agreement with Mr. McCallister (McCallister Agreement) pursuant to which he: 1) serves as President and Chief Executive Officer of the Company at an annual base salary in an amount not less than \$650,000; 2) participates in an incentive plan providing for a target incentive compensation amount of not less than 125% of his base salary; and 3) is eligible for participation in all benefit plans and programs made available by the Company for its executive employees.

In the event of termination of employment without Good Cause (as defined in the McCallister Agreement), or with Good Cause under certain circumstances as set out in the McCallister Agreement, or pursuant to disability or death, the Company will pay to him or his estate an amount equal to any unpaid current annual base salary accrued through the date of termination and a prorated bonus calculated on the basis of 100% of base salary, plus a

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severance amount equal to his annual base salary plus bonus calculated at 100% of his base salary. He is also entitled to continue his coverage under the Company's life, health and disability plans for a 12-month period upon the same terms and costs for other employees of the Company. Additionally, all of his stock options shall become fully vested and shall be exercisable for a two-year period following his termination.

In the event of termination of employment with Good Cause, Mr. McCallister would receive an amount equal to his then current base salary earned but not yet paid and shall have a period of 90 days to exercise any vested options. Mr. McCallister would forfeit any unvested options or restricted shares.

In the event of termination of employment because Mr. McCallister gives notice of termination of the McCallister Agreement, or because Mr. McCallister voluntarily terminates his employment during the Employment Period, then the Company shall pay to him an amount equal to his then current base salary. Any bonus payable shall be prorated. He shall have two years to exercise any vested options. He is also entitled to continue his coverage for a 12-month period under the Company's life, health and disability plans upon the same terms and costs for other similarly situated employees of the Company.

In the event of termination of employment following a Change in Control, as defined in the McCallister Agreement, then Mr. McCallister shall receive: 1) his full base salary earned but not yet paid through the termination date at the greater of the rate in effect at the time of the Change in Control or the Termination Date (Higher Annual Base Salary), plus a prorated bonus calculated at 125% of his Higher Annual Base Salary; 2) an amount equal to two and one-half times the sum of the Higher Annual Base Salary plus the maximum target incentive compensation which could have been earned; 3) continued coverage for a two-year period, at the Company's expense, under all life, health, dental, accidental death and dismemberment and disability insurance; and 4) a gross up amount for any payments that constitute an excess parachute payment.

The McCallister Agreement also contains provisions not to compete or solicit for a 12-month period following termination. The McCallister Agreement generally may be terminated by either party giving written notice on or before sixty (60) days of December 31 of each year.

In December 1999, the Company entered into an agreement with Mr. Jones (Jones Agreement) formalizing the payments he receives as Chairman of the Board. See Director Compensation for a description of the terms of the Jones Agreement.

All officers elected by the Board of Directors, including the Named Executive Officers, generally receive health benefits upon termination for themselves and their eligible dependents at a predetermined rate until the earlier of attainment of age 65 or obtaining other coverage.

The Company has entered into agreements with all other officers, including Mr. Murray, Dr. Lord, Mr. Goodman, Mr. Bloem and key management employees, which for a two-year period following a Change in Control provide certain benefits upon termination. Such termination shall be involuntary or shall be due to a resignation as a result of a change in responsibilities or compensation. Under these agreements, these individuals would be entitled to receive severance pay which generally is determined by multiplying the sum of each individual's annual base salary, and the maximum incentive compensation payable to him or her, by a multiple ranging from one to one and one-half.

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In addition, in the event of a Change in Control of the Company, benefits are payable under the Company's Stock Option and Restricted Stock Plans, and health, life and disability insurance coverage are available.

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CERTAIN TRANSACTIONS WITH MANAGEMENT AND OTHERS

In 1994, the Company entered into an agreement with JAPC, Inc. (JAPC), which is owned by David A. Jones. Under the terms of the Agreement as amended in February 2003, the Company provides hangar space, pilot services and maintenance for an airplane owned by JAPC, and the Company may also use the JAPC pilots to fly Company aircraft. The rate paid for the hangar space is at least as favorable to the Company as market rates for comparable space. The Company is fully reimbursed for the cost of airplane maintenance. Either party upon 30 days written notice generally may terminate the agreement. For the year ended December 31, 2002, the Company was reimbursed \$49,162 by JAPC.

Effective January 1998, the Company entered into an Aircraft Interchange Agreement with JAPC. Under the terms of the Agreement as amended in February 2003, the Company leases its aircraft to JAPC and JAPC leases its aircraft to the Company. The lessee exchanges with the lessor time on the lessee s aircraft based on a ratio reflecting the difference in operating costs among the various aircraft. The Company and JAPC each bill the other for any flights that occurred in the preceding month. Any difference in number of hours is carried over to succeeding months and is offset against flight hours on aircraft of the other party. Either party upon 60 days written notice may terminate the agreement. For the year ended December 31, 2002 the Company used JAPC s aircraft 25.0 hours and JAPC used the Company s aircraft 23.5 hours.

In 1995, the Company completed a commitment to invest \$1 million in the African-American Venture Capital Fund, LLC, a Kentucky Limited Liability Company (Fund). The Company invested an additional \$500,000 in the Fund from January 1, 2000 through March 1, 2003. These investments make the Company a greater than 10% stockholder of the Fund. David A. Jones has a similar investment in the Fund and is also a greater than 10% stockholder of the Fund. David A. Jones, Jr. is a director of the Fund. The Fund was established to provide capital and management resources to enhance the growth and development of businesses owned by African-Americans living in the metropolitan Louisville, Kentucky area.

During 2002, a subsidiary of the Company (Subsidiary) renewed a one year contract with Main Street Realty, Inc. (Main Street) of which Mr. Jones is Chairman, Director and sole owner, to provide health insurance benefits to employees of Main Street. The terms of the contract, including the premiums charged and benefits provided, are comparable to those extended to other non-affiliated customers of Subsidiary in the area. During 2002, Subsidiary received payments from Main Street of approximately \$79,000.

During 2002, the Company had a contract with a human resource search firm owned and controlled by a brother-in-law of James E. Murray, Chief Operating Officer Market & Business Segment Operations. The terms and the payments under the contract are comparable to those with other non-affiliated human resource entities. During 2002, the firm was paid \$310,375.

Table of Contents**AUDIT COMMITTEE REPORT**

The Audit Committee of the Company currently is comprised of four directors. All members are independent and financially literate as defined in the New York Stock Exchange listing standards. The Board of Directors has adopted a written charter for the Committee that is included as Appendix A to this Proxy Statement.

The Audit Committee reviews Humana's financial reporting processes on behalf of the Board of Directors. In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2002 with Humana's management and its independent auditors, PricewaterhouseCoopers LLP (PwC). Management is responsible for the financial statements and the reporting process, including the system of internal controls. PwC is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America. Management has represented to PwC and the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee discussed with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. In addition, the Audit Committee has discussed with PwC, the auditors' independence from Humana and its management including the matters in the written disclosures required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.

During 2002, the Audit Committee met with the Director of Internal Audit, members of management, and the Company's independent auditors, PwC, regarding current and planned audit activities. The Audit Committee Chairman, in consultation with Internal Audit, the independent auditors, and management reviewed quarterly financial statements of the Company. The Audit Committee met and reviewed the annual financial statements of the Company as well as met separately with the independent auditors during the year. Audit Committee members individually reviewed monthly operating and financial information of the Company as well as internal audits of controls over operations, financial processes, and compliance with laws and regulations.

During 2002, the Audit Committee reviewed and evaluated the relevant requirements of the Sarbanes-Oxley Act of 2002, the proposed rules of the U.S. Securities and Exchange Commission and the proposed new listing standards of the New York Stock Exchange regarding audit committee procedures and responsibilities. The Audit Committee is continuing its evaluation.

The Audit Committee reviewed the fees paid by Humana to PwC consisting of the following:

	For The Years Ended December 31	
	2002	2001
Audit Fees	\$ 1,846,593	\$ 1,532,280
Audit Related Fees	379,342	685,853
Tax Services	40,140	61,958
All Other Fees	177,484	185,853
TOTAL	\$ 2,443,559	\$ 2,465,944

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Audit-Related Fees include activities for employee benefit plan audits, mandated regulatory and compliance reviews and special audits for our Puerto Rico subsidiaries. No amounts were paid for Financial Systems Design and Implementation.

The Audit Committee discussed with Humana's internal auditors and with PwC the overall scope and plans for their respective audits. At each meeting, the Audit Committee is provided the opportunity to meet with the internal auditors and with PwC with and without management present.

The Audit Committee has established policies and procedures for pre-approving all audit, review and attest services that are required under the securities laws and all other permissible tax and non-audit services necessary to assure the auditor's continued independence. The Audit Committee annually will pre-approve the permissible non-audit services listed below, provided each such project does not exceed \$100,000 individually and all such projects do not exceed \$500,000 in the aggregate:

Related Assurance and Attestation Services

Risk and Control Services

Transaction Services

Tax Services

The Audit Committee separately will consider (i) any proposed retention of the independent auditor for permissible non-audit services in excess of the above limits and (ii) any proposed retention of the independent auditors for permissible non-audit services other than those listed above.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Humana Annual Report on Form 10-K for the year ended December 31, 2002.

All members of the Audit Committee of Humana submit the foregoing report:

AUDIT COMMITTEE

Michael E. Gellert, Chairman

Charles M. Brewer

John R. Hall

Irwin Lerner

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APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors, in accordance with the recommendation of its Audit Committee, has appointed PricewaterhouseCoopers LLP as independent accountants to audit the consolidated financial statements of the Company for the year ending December 31, 2003. Representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting and will be afforded the opportunity to make a statement if they desire t