ALLEGHANY CORP /DE
Form 10-Q
August 06, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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 1-9371

ALLEGHANY CORPORATION

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER

DELAWARE

STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION

51-0283071

I.R.S. EMPLOYER IDENTIFICATION NO.

7 TIMES SQUARE TOWER, 17TH FLOOR, NY, NY 10036

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE

212-752-1356

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE

NOT APPLICABLE

FORMER NAME, FORMER ADDRESS, AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT

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 (SECTION 232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES). YES x NO ¨

INDICATE BY CHECK MARK 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 ¨ (DO NOT CHECK IF A SMALLER REPORTING COMPANY)	SMALLER REPORTING COMPANY ¨

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT). YES ¨ NO x

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER S CLASSES OF COMMON STOCK, AS OF THE LAST PRACTICABLE DATE.

16,930,793 SHARES, PAR VALUE $1.00 PER SHARE, AS OF AUGUST 1, 2012

Table of Contents

TABLE OF CONTENTS

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2012 (unaudited)	December 31, 2011
	(in thousands, except share amounts)	
Assets		
Investments:		
Available-for-sale securities at fair value:		
Equity securities (cost: 2012 $1,046,323; 2011 $775,741)	$ 1,047,070	$ 870,950
Debt securities (amortized cost: 2012 $15,372,156; 2011 $2,538,872)	15,596,786	2,679,528
Short-term investments	1,023,144	1,096,517
	17,667,000	4,646,995
Other invested assets	433,930	179,815
Total investments	18,100,930	4,826,810
Cash	404,615	84,749
Accrued investment income	163,893	28,879
Premium balances receivable	762,145	147,006
Reinsurance recoverables	1,292,878	852,845
Ceded unearned premiums	171,054	142,946
Deferred acquisition costs	225,385	70,537
Property and equipment at cost, net of accumulated depreciation and amortization	31,541	17,906
Goodwill	82,495	48,095
Intangible assets, net of amortization	275,076	90,863
Current taxes receivable	69,356	
Net deferred tax assets	500,076	80,975
Other assets	339,248	86,478
	$ 22,418,692	$ 6,478,089
Liabilities and Stockholders Equity		
Loss and loss adjustment expenses	$ 11,720,944	$ 2,313,035
Unearned premiums	1,848,558	549,740
Senior Notes	1,819,825	299,035
Reinsurance payable	95,189	45,462
Current taxes payable		16,247
Other liabilities	654,051	328,893
Total liabilities	16,138,567	3,552,412
Common stock (shares authorized: 2012 and 2011 22,000,000; issued 2012 17,478,746; 2011 9,117,787)	17,479	9,118
Contributed capital	3,626,571	938,037
Accumulated other comprehensive income	139,031	155,532
Treasury stock, at cost (2012 547,953 shares; 2011 566,141 shares)	(161,944)	(167,319)
Retained earnings	2,658,988	1,990,309

Total stockholders equity	6,280,125	2,925,677
	$ 22,418,692	$ 6,478,089

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	$ 1,095,932	$ 183,878
Net investment income	90,860	28,545
Net realized capital gains	39,452	6,490
Other than temporary impairment losses	(1,129)	
Gain on bargain purchase		
Other income	9,276	248
Total revenues	1,234,391	219,161
Costs and Expenses		
Net loss and loss adjustment expenses	680,885	122,619
Commissions, brokerage and other underwriting expenses	239,193	64,132
Other operating expenses	34,826	7,834
Corporate administration	11,094	5,002
Amortization of intangible assets	108,098	839
Interest expense	15,743	4,268
Total costs and expenses	1,089,839	204,694
Earnings before income taxes	144,552	14,467
Income taxes	35,243	(615)
Net earnings	$ 109,309	$ 15,082
Other comprehensive income:		
Change in unrealized gains (losses), net of deferred taxes of $14,257 and $(13,154) for 2012 and 2011, respectively	26,477	(24,428)
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of $(13,413) and $(2,271) for 2012 and 2011, respectively	(24,910)	(4,218)
Change in unrealized currency translation adjustment, net of deferred taxes of $(8,012) and $0 for 2012 and 2011, respectively	(14,880)	
Retirement plans	(14)	(50)
Comprehensive income	$ 95,982	$ (13,614)
Basic earnings per share*	$ 6.46	$ 1.69
Diluted earnings per share*	6.45	1.68

* 2011 amounts reflect subsequent common stock dividends.

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	$ 1,530,139	$ 364,858
Net investment income	144,054	60,124
Net realized capital gains	107,441	41,182
Other than temporary impairment losses	(2,907)	
Gain on bargain purchase	494,940	
Other income	9,591	1,133
Total revenues	2,283,258	467,297
Costs and Expenses		
Net loss and loss adjustment expenses	914,831	193,641
Commissions, brokerage and other underwriting expenses	339,053	130,660
Other operating expenses	50,478	17,241
Corporate administration	58,387	11,381
Amortization of intangible assets	140,037	1,678
Interest expense	24,820	8,720
Total costs and expenses	1,527,606	363,321
Earnings before income taxes	755,652	103,976
Income taxes	86,240	17,554
Net earnings	$ 669,412	$ 86,422
Other comprehensive income:		
Change in unrealized gains (losses), net of deferred taxes of $34,402 and $40,295 for 2012 and 2011, respectively	63,889	74,834
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of $(36,587) and $(14,414) for 2012 and 2011, respectively	(67,947)	(26,768)
Change in unrealized currency translation adjustment, net of deferred taxes of $(6,282) and $0 for 2012 and 2011, respectively	(11,667)	
Retirement plans	(774)	(179)
Comprehensive income	$ 652,913	$ 134,309
Basic earnings per share*	$ 48.03	$ 9.69
Diluted earnings per share*	47.96	9.66

* 2011 amounts reflect subsequent common stock dividends.

See accompanying Notes to Unaudited Consolidated Financial Statements.

3

Table of Contents

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30, 2012	2011
	(in thousands)	
Cash flows from operating activities		
Net earnings	$ 669,412	$ 86,422
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	218,001	13,445
Net realized capital (gains) losses	(107,441)	(41,182)
Other than temporary impairment losses	2,907	
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	68,881	26,447
(Increase) decrease in premium balances receivable	61,089	(67,910)
(Increase) decrease in ceded unearned premiums	(21,370)	(18,708)
(Increase) decrease in deferred acquisition costs	(154,848)	(4,433)
Increase (decrease) in unearned premiums	138,662	64,921
Increase (decrease) in loss and loss adjustment expenses	(147,562)	(4,356)
Change in unrealized foreign exchange (losses) gains	31,632	
Gain on bargain purchase	(494,940)	
Other, net	(119,175)	(24,701)
Net adjustments	(524,164)	(56,477)
Net cash provided by (used in) operating activities	145,248	29,945
Cash flows from investing activities		
Purchases of debt securities	(1,338,155)	(300,624)
Purchases of equity securities	(609,586)	(394,186)
Sales of debt securities	724,914	204,676
Maturities and redemptions of debt securities	743,074	154,709
Sales of equity securities	596,018	337,265
Net (purchase) sale in short-term investments	222,815	2,386
Purchases of property and equipment	(1,950)	(4,582)
Purchase of subsidiary, net of cash acquired	(477,075)	
Other, net	(74,962)	(457)
Net cash (used in) provided by investing activities	(214,907)	(813)
Cash flows from financing activities		
Proceeds from issuance of Senior Notes	399,592	
Debt issue costs paid	(3,600)	
Treasury stock acquisitions		(21,277)
Tax benefit on stock based compensation	295	645
Other, net	374	243
Net cash provided by (used in) financing activities	396,661	(20,389)
Effect of exchange rate changes on cash	(7,136)	
Net increase (decrease) in cash	319,866	8,743

Cash at beginning of period		84,749		76,741
Cash at end of period	$	404,615	$	85,484
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest paid	$	41,614	$	8,203
Income taxes paid (refunds received)		83,677		20,724

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

ALLEGHANY CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

1. Summary of Significant Accounting Principles

(a) Principles of Financial Statement Presentation

This report should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 10-K) and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 of Alleghany Corporation (Alleghany).

Alleghany, a Delaware corporation, which together with its subsidiaries is referred to as Alleghany unless the context otherwise requires, is engaged in the property and casualty reinsurance and insurance business. Reinsurance business is conducted through certain subsidiaries of Alleghany s wholly-owned subsidiary Transatlantic Holdings, Inc. (Transatlantic), which was acquired on March 6, 2012 (the Acquisition Date) (see Note 2). Insurance business is conducted through certain subsidiaries of Alleghany Insurance Holdings LLC (AIHL).

Transatlantic, through its principal wholly-owned subsidiaries, Transatlantic Reinsurance Company (TRC), Trans Re Zurich Reinsurance Company Ltd. (TRZ) and Fair American Insurance and Reinsurance Company (FAIRCO), offers reinsurance capacity to reinsurance and insurance companies for a full range of property and casualty products, through brokers and on a direct basis, in both the domestic and foreign markets. Transatlantic is headquartered in New York with six other locations in the United States and has operations worldwide, including: Bermuda, Canada, seven locations in the United Kingdom and Europe, three locations in Central and South America, three locations in Asia, Australia, and Africa. One or both of TRC and FAIRCO are licensed, accredited or authorized or can serve as a reinsurer in 50 states and the District of Columbia in the United States and in Puerto Rico and Guam. TRC is also licensed in Bermuda, Canada, Japan, the United Kingdom, the Dominican Republic, the Hong Kong Special Administrative Region of the People s Republic of China, Germany and Australia. In addition, TRZ is licensed as a reinsurer in Switzerland.

AIHL s insurance business is conducted through its wholly-owned subsidiaries RSUI Group, Inc. (RSUI), Capitol Transamerica Corporation and Platte River Insurance Company (collectively, CATA), and Pacific Compensation Corporation (PCC).

Alleghany s equity investments, including those held by Transatlantic s and AIHL s operating units, are managed primarily by Alleghany Capital Partners LLC, an indirect, wholly-owned subsidiary of Alleghany. Alleghany also owns and manages properties in the Sacramento, California region through its subsidiary Alleghany Properties Holdings LLC (Alleghany Properties). On April 26, 2012, Alleghany acquired BKH Holdings, Inc. and its majority-owned subsidiary Bourn & Koch, Inc. (Bourn & Koch), a manufacturer and remanufacturer/retrofitter of precision machine tools and supplier of replacement parts, headquartered in Rockford, Illinois.

In addition, Alleghany owns approximately 33 percent of the outstanding shares of common stock of Homesite Group Incorporated (Homesite), a national, full-service, mono-line provider of homeowners insurance, and approximately 38 percent of ORX Exploration, Inc. (ORX), a regional oil and gas exploration and production company. These investments are reflected in Alleghany s financial statements in other invested assets. Alleghany also makes strategic investments in operating companies and conducts other activities at the parent level.

The financial statements contained in this Quarterly Report on Form 10-Q are unaudited, but reflect all adjustments that, in the opinion of management, are necessary for a fair statement of results of the interim periods covered thereby. All adjustments are of a normal and recurring nature except as described herein.

The accompanying unaudited consolidated financial statements include the results of Alleghany and its wholly-owned and majority-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant inter-company balances and transactions have been eliminated in consolidation. The results of Transatlantic are included from the Acquisition Date to June 30, 2012 and not in any prior periods, except with respect to Supplemental Pro Forma Information included in Note 2(e), and the results of Bourn & Koch are included from April 26, 2012 to June 30, 2012 and not in any prior periods.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Alleghany relies on historical experience and on various other assumptions that it believes to be reasonable under the circumstances to make judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those reported results to the extent that those estimates and assumptions prove to be inaccurate. Changes in estimates are reflected in the consolidated statement of earnings and comprehensive income in the period in which the change is made. The results of operations for any interim period are not necessarily indicative of results for the full year.

Table of Contents

(b) Investments

Investments consist of debt securities, equity securities, short-term investments and other invested assets. Alleghany considers all of its marketable equity securities, debt securities and short-term investments as available-for-sale (AFS). Debt securities consist of securities with an initial fixed maturity of more than one year. Debt securities typically take the form of bonds. Equity securities generally consist of securities that represent ownership interests in an enterprise. Equity securities typically take the form of common stock. Mutual funds are also classified as equity securities, including funds that invest mostly in debt securities. Short-term investments include commercial paper, certificates of deposit, money market instruments and any fixed maturity investment with an initial maturity of one year or less.

AFS securities are recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect applicable to AFS securities, as well as partnership investments that Alleghany accounts for as AFS, are excluded from earnings and reflected in comprehensive income, and the cumulative effect is reported as a separate component of stockholders equity until realized. If a decline in fair value is deemed to be other than temporary, the investment is written down to its carrying value and the amount of the write-down is recorded as an other than temporary impairment (OTTI) loss on the statement of earnings. In addition, any portion of such decline that relates to debt securities that is believed to arise from factors other than credit is recorded as a component of other comprehensive income, rather than against earnings.

Other invested assets include invested assets not identified above, primarily related to: (i) equity investments in operating companies where Alleghany has significant influence; (ii) partnership investments (including hedge funds and private equity funds); and (iii) loans receivable. Equity investments in operating companies where Alleghany has significant influence (an aggregate common stock position held at or above 20 percent is presumed to convey significant influence) are accounted for using the equity method. Partnership investments are accounted for as either AFS, or using the equity method where Alleghany has significant influence. Loans receivable are carried at unpaid principal balance.

Net realized gains and losses on investments are determined in accordance with the specific identification method.

Net investment income consists primarily of: (i) interest income from debt securities, short-term investments and cash, including any premium or discount amortization; (ii) dividend income from equity securities; and (iii) investment income from other invested assets, which generally includes distributions when receivable and earnings from investments accounted for under the equity method; less expenses related to investments. Interest income is accrued when earned. Premiums and discounts arising from the purchase of certain debt securities are treated as a yield adjustment over the estimated useful life of the securities, adjusted for anticipated prepayments using the retrospective interest method. Under this method, the effective yield on a security is estimated. Such estimates are based on the prepayment terms of the security, past actual cash flows, and assumptions as to future expected cash flow. The future cash flow assumptions consider various prepayment assumptions based on historical experience, as well as current market conditions. Periodically, the effective yield is re-estimated to reflect actual prepayments and updated future cash flow assumptions. Upon a re-estimation, a security s book value is restated at the most recently calculated effective yield, assuming that yield had been in effect since the security was purchased. This treatment results in an increase or decrease to net investment income (amortization of premium or discount) at the new measurement date.

See Note 4 for further information regarding investments.

(c) Fair value

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. In addition, a three-tiered hierarchy for inputs is used in management s determination of fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are market participant assumptions based on market data obtained from sources independent of the reporting entity. Unobservable inputs are the reporting entity s own assumptions about market participant assumptions based on the best information available under the circumstances. In assessing the appropriateness of using observable inputs in making fair value determinations, Alleghany considers whether the market for a particular security is active or not based on all the relevant facts and circumstances. A market may be considered to be inactive if there are relatively few recent transactions or if there is a significant decrease in market volume. Furthermore, Alleghany considers whether observable transactions are orderly or not. Alleghany does not consider a transaction to be orderly if there is evidence of a forced liquidation or other distressed condition, and as such, little or no weight is given to that transaction as an indicator of fair value.

Although Alleghany is responsible for the determination of the value of the financial assets and the supporting methodologies and assumptions, it employs third party valuation service providers to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When those providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting a quote, which is generally non-binding, from brokers who are knowledgeable about these securities or by employing widely accepted internal valuation models.

Table of Contents

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted internal valuation models, provide a single fair value measurement for individual securities. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates, and other market observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 Valuations are based on unadjusted quoted prices in active markets that Alleghany has the ability to access for identical, unrestricted assets, and do not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Alleghany s Level 1 assets include publicly traded common stocks and mutual funds where Alleghany s valuations are based on quoted market prices.

- Level 2 Valuations are based on direct and indirect observable inputs other than quoted market prices included in Level 1. Level 2 inputs include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as the terms of the security and market-based inputs. Terms of the security include coupon, maturity date, and any special provisions that may, for example, enable the investor, at its election, to redeem the security prior to its scheduled maturity date. Market-based inputs include interest rates and yield curves that are observable at commonly quoted intervals and current credit rating(s) of the security. Level 2 assets generally include short-term investments and most debt securities. Alleghany s Level 2 liabilities consist of the Senior Notes.

- Level 3 Valuations are based on techniques that use significant inputs that are unobservable. The valuation of Level 3 assets requires the greatest degree of judgment, as these valuations are based on techniques that use significant inputs that are unobservable. These measurements may be made under circumstances in which there is little, if any, market activity for the asset. Alleghany s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, Alleghany considers factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Some Level 3 valuations are based entirely on non-binding broker quotes. These securities consist primarily of mortgage and asset-backed securities where reliable pool and loan level collateral information cannot be reasonably obtained. Assets classified as Level 3 principally include certain residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), other asset-backed securities, and partnership investments.

Mortgage and asset-backed securities are initially valued at the transaction price. Subsequently, Alleghany uses widely accepted valuation practices that produce a fair value measurement by comparison to transactions in similarly structured instruments, use of discounted cash flows, or option adjusted spread analyses. Unobservable inputs, significant to the measurement and valuation of mortgage and asset-backed securities, include assumptions about prepayment speed and collateral performance, including default, delinquency and loss severity rates. Significant changes to any one of these inputs, or combination of inputs, could significantly change the fair value measurement for these securities.

The impact of prepayment speeds on fair value is dependent on a number of variables including whether the securities were purchased at a premium or discount. A decrease in interest rates generally increases the assumed rate of prepayments, and an increase in interest rates generally decreases the assumed speed of prepayments. Increased prepayments increase the yield on securities purchased at a discount, and reduce the yield on securities purchased at a premium. In a decreasing prepayment environment, yields on securities purchased at a discount are reduced but are increased for securities purchased at a premium. Changes in default assumptions on underlying collateral are generally accompanied by directionally similar changes in other collateral performance factors, but generally result in a directionally opposite change in prepayment assumptions.

Fair values for partnership and private equity investments are initially valued at the transaction price. Subsequently, fair value is based on the performance of the portfolio of investments or results of operations of the investee, as derived from their financial statements. Significant improvements or disruptions in the financial markets may result in directionally similar or opposite changes to the portfolio of the investee, depending on how management of the investee has correlated the portfolio of investments to the market. Also, any changes made by the investee to the investment strategy of the private equity investment could result in significant changes to fair value that have a positive or negative correlation to the performance observed in the equity markets. For those investments whose performance is based on the results of operations within a specific industry, significant events impacting that industry could materially impact fair value. Also, decisions and changes to strategy made by management of the investee could result in positive or negative outcomes, which could significantly impact the results of operations of the investee and subsequently fair value.

Table of Contents

Alleghany employs specific control processes to determine the reasonableness of the fair values of its financial assets and liabilities. Alleghany s processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Alleghany assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, Alleghany validates the reasonableness of fair values by comparing information obtained from Alleghany s valuation service providers to other third party valuation sources for selected securities. Alleghany also validates prices obtained from brokers for selected securities through reviews by those who have relevant expertise and who are independent of those charged with executing investing transactions.

In addition to such procedures, Alleghany reviews the reasonableness of its classification of securities within the three-tiered hierarchy to ensure that the classification is consistent with GAAP.

See Note 3 for further information regarding fair value.

(d) Cash

Cash includes all deposit balances with a bank that are available for immediate withdrawal, whether interest-bearing or non-interest bearing.

(e) Premiums and Unearned Premiums

Premiums are recognized as revenue on a pro-rata basis over the term of an insurance policy. Assumed reinsurance premiums written and earned are based on reports received from ceding companies for pro rata treaty contracts and are generally recorded as written based on contract terms for excess-of-loss treaty contracts. Premiums are earned ratably over the terms of the related coverages.

Unearned premiums and ceded unearned premiums represent the portion of gross premiums written and ceded premiums written, respectively, relating to the unexpired terms of such coverages. Assumed reinsurance premiums written and earned, along with related costs, for which data has not been reported by the ceding companies, are estimated based on historical patterns and other relevant information. These estimates may change when actual data for such estimated items becomes available.

Premium balances receivable are reported net of an allowance for estimated uncollectible premium amounts. Such allowance is based upon an ongoing review of amounts outstanding, length of collection periods, the creditworthiness of the insured, and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance.

(f) Reinsurance Ceded

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. Reinsuring loss exposures does not relieve the ceding entity from its obligations to policyholders. Reinsurance recoverables (including amounts related to claims incurred but not reported) and ceded unearned premiums are reported as assets. To minimize exposure to losses from a reinsurer s inability to pay, the financial condition of such reinsurer is evaluated initially upon placement of the reinsurance and periodically thereafter. In addition to considering the financial condition of a reinsurer, the collectibility of the reinsurance recoverables is evaluated (and where appropriate, whether an allowance for estimated uncollectible reinsurance recoverables is to be established), based upon a number of other factors. Such factors include the amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held, and other relevant factors. To the extent that an allowance for uncollectible reinsurance recoverable is established, amounts deemed to be uncollectible are written off against the allowance for estimated uncollectible reinsurance recoverables. There is currently no allowance for uncollectible reinsurance recoverables. See Note 5.

Ceded premiums written are recorded in accordance with the applicable terms of the various reinsurance contracts, and ceded premiums earned are charged against revenue over the period of the various reinsurance contracts. This also generally applies to reinstatement premiums paid to a reinsurer, which arise when contractually-specified ceded loss triggers have been breached. Ceded commissions reduce commissions, brokerage and other underwriting expenses, and ceded losses incurred reduce net loss and loss adjustment expense (LAE) incurred over the applicable periods of the various reinsurance contracts with third party reinsurers. If premiums or commissions are subject to adjustment (for example, retrospectively-rated or experience-rated), the estimated ultimate premium or commission is recognized over the period of the contract.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business and consistent with the terms of the underlying reinsurance contract.

8

(g) Deferred Acquisition Costs

As discussed in more detail in Note 1(q), Alleghany adopted new accounting guidance in the first quarter of 2012 related to acquisition costs.

Acquisition costs related to unearned premiums that vary with, and are directly related to, the production of such premiums are deferred. Furthermore, such deferred costs: (i) represent only incremental, direct costs associated with the successful acquisition of a new or renewal insurance or reinsurance contract; (ii) are essential to the contract transaction; (iii) would not have been incurred had the contract transaction not occurred; and (iv) are related directly to the acquisition activities involving underwriting, policy issuance and processing. Acquisition costs principally relate to commissions. To a lesser extent, acquisition costs can include premium taxes and certain qualifying underwriting expenses. For insurance policies written, acquisition costs are generally incurred directly, and include commissions, premium taxes and certain qualifying underwriting expenses. For reinsurance contracts written, acquisition costs are generally incurred through brokerage commissions and indirectly through ceding commissions, which are deferred. Deferred acquisition costs are amortized to expense as the related premiums are earned, generally over a period of one year. Deferred acquisition costs are reviewed at least annually to determine their recoverability from future income, including investment income. If any such costs are determined not to be recoverable they are charged to expense.

Anticipated net loss and LAE and estimated remaining costs of servicing the contracts are considered when evaluating recoverability of deferred acquisition costs.

(h) Property and Equipment

Property and equipment is carried at cost, net of accumulated depreciation and amortization. Depreciation of buildings and equipment is principally calculated using the straight-line method over the estimated useful life of the respective assets. Estimated useful lives for such assets range from 3 to 20 years. Amortization of leasehold improvements is principally calculated using the straight-line method over the estimated useful life of the leasehold improvement or the life of the lease, whichever is less. Rental expense on operating leases is recorded on a straight-line basis over the term of the lease, regardless of the timing of actual lease payments.

(i) Goodwill and Other Intangible Assets

Goodwill and other intangible assets, net of amortization, are recorded as a consequence of business acquisitions. Goodwill represents the excess, if any, of the amount paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Other intangible assets are recorded at their fair value as of the acquisition date. A significant amount of judgment is needed to determine the fair values at the date of acquisition of other intangible assets and the net assets acquired in a business acquisition. The determination of the fair value of other intangible assets and net assets often involves the use of valuation models and other estimates, which involve many assumptions and variables and are inherently subjective. Other intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. Goodwill and those intangible assets that have an indefinite useful life are not subject to amortization.

Goodwill and other intangible assets deemed to have an indefinite useful life are tested annually in the fourth quarter of every year for impairment. Goodwill and other intangible assets are also tested whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. A significant amount of judgment is required in performing goodwill and other intangible asset impairment tests. These tests include estimating the fair value of Alleghany s operating units and other intangible assets. If it is determined that an asset has been impaired, the asset is written down by the amount of the impairment, with a corresponding charge to net earnings. Subsequent reversal of any impairment charge is not permitted.

With respect to goodwill, a qualitative assessment is first made to determine whether it is necessary to perform quantitative testing. This initial assessment includes, among others, consideration of: (i) past, current and projected future earnings and equity; (ii) recent trends and market conditions; and (iii) valuation metrics involving similar companies that are publicly-traded and acquisitions of similar companies, if available. If this initial qualitative assessment indicates that the fair value of an operating unit may be less than its respective carrying amount, a second step is taken, involving a comparison between the estimated fair values of the operating units with their respective carrying amounts including goodwill. Under GAAP, fair value refers to the amount for which the entire operating unit may be bought or sold. The methods for estimating operating unit values include asset and liability fair values and other valuation techniques, such as discounted cash flows and multiples of earnings or revenues. All of these methods involve significant estimates and assumptions. If the carrying value exceeds estimated fair value, there is an indication of potential impairment, and a third step is performed to measure the amount of impairment. The third step involves calculating an implied fair value of goodwill by measuring the excess of the estimated fair value of the operating units over the aggregate estimated fair values of the individual assets less liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment charge is recorded for the excess.

See Note 1(q) and Note 2 for further information on goodwill and other intangible assets.

(j) Income Taxes

Alleghany files a consolidated federal income tax return with its subsidiaries. Following the Acquisition Date, Alleghany s consolidated federal income tax return will include as part of its taxable income those items of income of non-U.S. subsidiaries that are subject to U.S. income tax currently, pursuant to Subpart F income rules of the Internal Revenue Code. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Current tax liabilities or assets are recognized for the estimated taxes payable or refundable on tax returns for the current year.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. This determination is based upon a review of all available evidence, both positive and negative, including Alleghany s earnings history, the timing, character and amount of future earnings potential, the reversal of taxable temporary differences and the tax planning strategies available.

See Note 9 for further information on income taxes.

(k) Loss Reserves

The reserves for loss and LAE represent management s best estimate of the ultimate cost of all reported and unreported losses incurred through the balance sheet date.

The reserves for loss and LAE include but are not limited to: (i) reports and individual case estimates received from ceding companies, with respect to assumed reinsurance business; (ii) the accumulation of individual estimates for claims reported, with respect to direct insurance business; (iii) estimates for incurred but not reported (IBNR) claims based on past experience, modified for current trends and industry data; and (iv) estimates of expenses for investigating and settling claims based on past experience. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments are reflected in current income. Net loss and LAE incurred consists of the estimated ultimate cost of settling claims incurred within the reporting period (net of related reinsurance recoverable), including IBNR claims, plus changes in estimates of prior period losses.

The estimation of loss reserves is inherently difficult and subjective, especially in view of changing legal and economic environments that impact the development of loss reserves. Therefore, quantitative techniques have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future.

Although the reserving process is difficult for insurance companies, the inherent uncertainties of estimating loss reserves are even greater for reinsurers, due primarily to a lag in claims reporting, the longer-term nature of much of the reinsurance business, the diversity of development patterns among different types of reinsurance treaties or facultative contracts, the necessary reliance on the ceding companies for information regarding reported claims, and differing reserving practices among ceding companies, which may change without notice. Alleghany writes a significant amount of non-proportional assumed casualty reinsurance as well as proportional assumed reinsurance of excess liability business for classes such as medical malpractice, directors and officers (D&O) liability, errors and omissions liability and general casualty. Claims from such classes can exhibit greater volatility over time than most other classes due to their low frequency, high severity nature and loss cost trends that are more difficult to predict. Net loss and LAE also include amounts for risks relating to asbestos-related illnesses and environmental impairment. See Notes 6 and 12(d).

(l) Earnings Per Share of Common Stock

Basic earnings per share of common stock is based on the average number of shares of common stock, par value $1.00 per share, of Alleghany (Common Stock) outstanding during the period, retroactively adjusted for stock dividends. Diluted earnings per share of Common Stock are based on those shares used to calculate basic earnings per share of Common Stock plus the dilutive effect of stock-based compensation awards, retroactively adjusted for stock dividends. See Note 11 for further information on earnings per share.

(m) Stock-Based Compensation Plans

The cost resulting from all stock-based compensation transactions is recognized in the financial statements, with fair value as the measurement objective in accounting for stock-based compensation arrangements. The fair value-based measurement method applies in accounting for stock-based compensation transactions with employees. Non-employee directors are treated as employees for accounting purposes.

Table of Contents

With respect to stock option grants, the fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatilities are based on historical volatility of the Common Stock. Alleghany uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

(n) Senior Notes

Debt consists of senior notes issued by Alleghany (the Alleghany Senior Notes) and senior notes issued by Transatlantic (the Transatlantic Senior Notes, and collectively with the Alleghany Senior Notes, the Senior Notes). The Senior Notes are carried at unpaid principal balance including any unamortized premium or discount.

See Note 8 for further information regarding the Senior Notes.

(o) Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at period-end exchange rates. Income and expense accounts are translated at average exchange rates for the year. The resulting unrealized currency translation gain (loss) for functional currencies is recorded, net of tax, in accumulated other comprehensive income, a component of stockholders equity.

Transaction gains and losses on assets and liabilities denominated in foreign currencies are recorded as a component of net realized capital gains (losses) during the period in which they occur.

(p) Reclassification

Certain prior year amounts have been reclassified to conform to the 2012 presentation of the financial statements.

(q) Recent Accounting Standards

Recently Adopted

In September 2011, the Financial Accounting Standards Board (the FASB) issued revised guidance on the testing of goodwill for impairment. This guidance simplifies how an entity tests goodwill for impairment by allowing an entity to first make a qualitative assessment to determine whether it is necessary to perform quantitative testing. Based on the results of such assessment, an entity will no longer be required to perform quantitative testing if it is more likely than not that the fair value of a reporting unit is greater than its carrying value. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Alleghany adopted this guidance in the first quarter of 2012, and the implementation did not have an impact on its results of operations and financial condition.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance, as amended in December 2011, increases the prominence of other comprehensive income in the financial statements and eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. This guidance does not change the items that must be reported within other comprehensive income. This guidance is generally effective for interim and annual periods beginning after December 15, 2011. Alleghany adopted this guidance in the first quarter of 2012, and the implementation did not have an impact on its results of operations and financial condition.

In May 2011, the FASB issued guidance that addresses requirements for measuring fair value. Among other things, the guidance clarifies that the highest and best use valuation premise applies only to non-financial assets, and that premiums or discounts should be applied to valuations of an individual asset or liability only when market participants would do so. The guidance also permits measurement of fair value of financial instruments (that are carried at fair value) based on an entity s net exposure to a particular market or credit risk on a net basis if there is evidence that the entity manages its financial instruments in this way. The guidance provides for additional financial statement disclosure regarding fair value measurements, including disclosure involving transfers between categories within the fair value hierarchy, and quantitative and qualitative information about fair value measurements that involve a significant degree of judgment. This guidance is effective for interim and annual periods ending after December 15, 2011. Alleghany adopted this guidance in the first quarter of 2012, and the implementation did not have a material impact on its results of operations and financial condition.

In October 2010, the FASB issued guidance that provides additional clarification for costs associated with acquiring or renewing insurance contracts. This guidance states that only incremental, direct costs associated with the successful acquisition of a new or renewal insurance contract may be capitalized as deferred acquisition costs. Furthermore, such costs: (i) must be essential to the contract transaction; (ii) would not have been incurred had the contract transaction not occurred; and (iii) must be related directly to the acquisition activities involving underwriting, policy issuance and processing, medical and inspection, and sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in separate direct response advertising guidance within GAAP are met. All other acquisition-related costs and other expenses should be charged to expense as incurred. This guidance is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. Alleghany adopted this guidance in the first quarter of 2012, and the implementation did not have a material impact on its results of operations and financial condition.

Future Application of Accounting Standards

In July 2012, the FASB issued revised guidance on the testing of certain intangible assets for impairment. This guidance simplifies how an entity tests for impairment intangible assets other than goodwill, such as licenses and trade names, that are determined to have an indefinite life. It does so by allowing an entity to first make a qualitative assessment to determine whether it is necessary to perform quantitative testing. Based on the results of such assessment, an entity will only be required to perform quantitative testing if it is more likely than not that the asset is impaired. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. Alleghany will adopt this guidance in the fourth quarter of 2012, and Alleghany currently does not believe that the implementation will have a material impact on its results of operations and financial condition.

In December 2011, the FASB issued guidance on disclosure requirements related to offsetting arrangements. The guidance provides for additional financial statement disclosure regarding offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on an entity s financial position. This guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013. Alleghany will adopt this guidance in the first quarter of 2013, and Alleghany currently does not believe that the implementation will have a material impact on its results of operations and financial condition.

2. Merger with Transatlantic

(a) Overview

On November 20, 2011, Alleghany entered into an Agreement and Plan of Merger (the Merger Agreement) with its wholly-owned subsidiary, Shoreline Merger Sub, LLC (subsequently converted into a corporation) (Merger Sub), and Transatlantic Holdings, Inc. (Old Transatlantic). On the Acquisition Date, Old Transatlantic was merged with (the merger) and into Merger Sub, which was renamed Transatlantic Holdings, Inc., and became a wholly-owned subsidiary of Alleghany.

Pursuant to the terms of the Merger Agreement, on the Acquisition Date, stockholders of Old Transatlantic were entitled to receive, in exchange for each share of Old Transatlantic common stock held, either shares of Common Stock or cash consideration with a value equal to approximately $61.14 (Per Share Consideration), which was the sum of (i) 0.145 multiplied by the average of the closing sales prices on the New York Stock Exchange for Common Stock during the five trading days ending the day before the Acquisition Date (the Average Closing Price) and (ii) $14.22, as more fully described in the Merger Agreement. In total, Alleghany paid to the stockholders of Old Transatlantic consideration of approximately $3.5 billion, consisting of cash consideration of $816.0 million and stock consideration of 8,360,959 shares of Common Stock. The stock consideration is generally expected to be tax free to Old Transatlantic stockholders.

Following the Acquisition Date, the Alleghany board of directors consisted of all 11 members from its pre-merger board of directors and three additional members (the Continuing Directors) who had served on the board of directors of Old Transatlantic.

Alleghany incurred due diligence, legal, investment banking and other merger-related costs (Transaction Costs) of $33.8 million in the first six months of 2012, including $18.0 million payable to Alleghany s investment bankers, in connection with the merger. Alleghany also incurred $19.3 million of Transaction Costs in the fourth quarter of 2011 in connection with the merger. Transaction Costs are reported as a component of corporate administration expense.

The merger was accounted for using the acquisition method of accounting. Based on the relative voting interests of Alleghany stockholders (approximately 51 percent) and Old Transatlantic stockholders (approximately 49 percent) in Alleghany post-merger, the composition of Alleghany s board of directors and senior management after the merger and other factors, it was determined that Alleghany is the acquiring entity for accounting purposes. Under the acquisition method of accounting, the assets, liabilities and commitments of Transatlantic are adjusted to their fair values on the Acquisition Date. Significant judgment was required to arrive at estimates of fair values.

The excess of the fair value of the net assets acquired over the purchase price was recorded as a gain on bargain purchase of $494.9 million and is shown as a separate component of revenues in the statement of earnings for the six months ended June 30, 2012. The gain on bargain purchase determination is consistent with the fact that prior to the merger, Old Transatlantic s shares of common stock, similar to shares of certain other reinsurance and insurance companies, traded at a discount to book value per common share.

Table of Contents

(b) Purchase Price

Alleghany s total purchase price for Old Transatlantic as of the Acquisition Date is calculated in accordance with GAAP as follows (in millions, except per share amounts):

Shares of Old Transatlantic common stock outstanding as of the Acquisition Date	57.6	
Multiplied by per share exchange ratio of 0.145 shares of Common Stock per share of Old Transatlantic common stock	0.145	
Shares of Common Stock issued	8.4	
Multiplied by the Acquisition Date closing price per share of Common Stock[1]	$ 322.50	
Portion of purchase price based on shares of Common Stock issued		$ 2,696.4
Shares of Old Transatlantic common stock outstanding as of the Acquisition Date	57.6	
Adjustment to Old Transatlantic common stock[2]	(0.2)	
Old Transatlantic common stock, as adjusted	57.4	
Multiplied by cash price per share component	$ 14.22	
Portion of purchase price based on cash consideration		816.0
Total purchase price		$ 3,512.4

(1) As noted previously, the Merger Agreement determined aggregate consideration paid based on the Average Closing Price. For GAAP purposes, the purchase price is determined based on the closing price of the Common Stock as of the Acquisition Date.

(2) The $816.0 million cash consideration was fixed as of the date of the Merger Agreement, predicated on the 57.4 million shares of common stock of Old Transatlantic outstanding at that date multiplied by $14.22 per share. Therefore, the additional 0.2 million of Old Transatlantic shares outstanding as of the Acquisition Date do not cause the cash consideration to increase and are adjusted for in this presentation.

(c) Fair Value of Net Assets Acquired and Gain on Bargain Purchase

The total fair value of net assets acquired and the gain on bargain purchase as of the Acquisition Date are calculated as follows (in millions):

Net book value of net assets acquired prior to fair value adjustments	$ 4,062.7
Adjustments for fair value, by applicable balance sheet caption:	
Assets:	
Deferred acquisition costs	(250.7)
Intangible assets	323.5
Net deferred tax assets	21.5
All other assets	(25.3)
Liabilities:	
Transatlantic Senior Notes	(124.4)
Fair value of net assets acquired	4,007.3
Less purchase price	(3,512.4)
Gain on bargain purchase (before all Transaction Costs)	$ 494.9

Pursuant to the terms of the Merger Agreement, each outstanding stock option to acquire Old Transatlantic common stock was converted into the right to receive a cash payment based on its Black-Scholes value on the Acquisition Date based on assumptions set forth in the Merger Agreement. As of the Acquisition Date, the value of the Old Transatlantic stock options was determined to be $11.1 million, which amount was paid by Alleghany in March 2012.

Pursuant to the terms of the Merger Agreement, each outstanding Old Transatlantic restricted stock unit (including performance-based Old Transatlantic restricted stock units) held by current or former employees or non-employee directors of Old Transatlantic was converted into the right to receive a cash payment in an amount equal to the Per Share Consideration, with the same terms and conditions as were applicable under such restricted stock unit prior to its conversion, that was: (i) deemed notionally invested in the equity of Transatlantic, referred to as book value units; (ii) with respect to the Continuing Directors, deemed notionally invested in Common Stock; or (iii) maintained in a cash account while continuing to vest on the existing vesting schedule. As of the Acquisition Date, the value of the Transatlantic restricted stock units was determined to be $49.5 million, of which $1.1 million was paid by Alleghany in the first six months of 2012 with the remainder expected to be paid over the next three years.

Table of Contents

Prior to the Acquisition Date, Old Transatlantic established a liability for its stock option and restricted stock awards that was previously accounted for as equity, and this liability is reflected in the net book value of net assets acquired prior to fair value adjustments.

An explanation of the adjustments for fair value is as follows:

Deferred acquisition costs - Elimination of Transatlantic s deferred acquisition costs asset.

Intangible assets - Establish fair value of intangible assets related to Transatlantic (see below for further detail).

Net deferred tax assets - Adjustment to deferred tax assets, net, related to fair value adjustments. See Note 9.

All other assets - Elimination of Transatlantic s carried goodwill, deferred debt issuance costs, allowance for doubtful accounts and the recording of fair value adjustments to other asset categories.

Transatlantic Senior Notes - Adjustments of the Transatlantic Senior Notes to their estimated fair value based on prevailing interest rates and other factors as of the Acquisition Date. See Note 8(b).

The net intangible assets (liabilities) included in intangible assets in the table above, and as of June 30, 2012, consist of the following (in millions):

		Amount	Economic Useful Life
Value of business in-force	$	291.4	One Year
Loss and LAE reserves		(98.8)	15 years
State and foreign insurance licenses		19.0	Indefinite
Trade name		50.0	Indefinite
Renewal rights		44.0	14 years
Leases		(28.1)	10 years
Gain contingency on dispute previously in arbitration		36.0	As settled
Internally-developed software		10.0	2.5 years
Net intangible assets, before amortization, as of the Acquisition Date	$	323.5	
Amortization (from the Acquisition Date through June 30, 2012)	$	138.3	
Net intangible assets, after amortization, as of June 30, 2012	$	185.2	

 /P>

David A. Jones, Jr.	5,000	14.7813	01/02/11(6)
	5,000	11.5500	01/02/12(3)
	5,000	10.1900	01/02/13(4)
	2,500	23.0500	01/02/14(2)
Frank A. D Amelio	15,000	18.0300	09/11/13(1)
	2,500	23.0500	01/02/14(2)

W. Roy Dunbar	0		
Kurt J. Hilzinger	15,000	16.4550	07/10/13(5)
	2,500	23.0500	01/02/14(2)
William J. McDonald	0		
William E. Mitchell	0		
David B. Nash, M.D.	0		
James J. O Brien	0		
Marissa T. Peterson	0		
W. Ann Reynolds, Ph.D.	5,000	14.7813	01/02/11(6)
	5,000	11.5500	01/02/12(3)
	5,000	10.1900	01/02/13(4)
	2,500	23.0500	01/02/14(2)

(1) Options granted on 09/11/03 pursuant to the Company s 2003 Stock Incentive Plan, shares are fully vested

(2) Options granted on 01/02/04 pursuant to the Company s 2003 Stock Incentive Plan, shares are fully vested

(3) Options granted on 01/02/02 pursuant to the Company s 1996 Stock Incentive Plan, shares are fully vested

(4) Options granted on 01/02/03 pursuant to the Company s 1996 Stock Incentive Plan, shares are fully vested

(5) Options granted on 07/10/03 pursuant to the Company s 2003 Stock Incentive Plan, shares are fully vested

(6) Options granted on 01/02/01 pursuant to the Company s 1996 Stock Incentive Plan, shares are fully vested

Table of Contents

As of December 31, 2009, the following Restricted Stock Units have been deferred by the directors, as of the dates indicated, pursuant to the discussion under the Director Compensation Table Footnote (1):

	December 31, 2009	February 26, 2010
David A. Jones, Jr.	5,022	5,022
Frank A. D Amelio	11,503	14,275
W. Roy Dunbar	11,182	14,029
Kurt J. Hilzinger	9,036	11,808
William J. McDonald	17,013	20,048
William E. Mitchell	10,853	13,625
David B. Nash, M.D.		10,272
James J. O Brien	16,408	19,180
Marissa T. Peterson	10,877	13,649
W. Ann Reynolds, Ph.D	4,984	7,756

Table of Contents

STOCK OWNERSHIP INFORMATION

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, or the Exchange Act, requires our directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities, to file with the SEC and the NYSE, reports of ownership and reports of changes in ownership of our common stock and our other equity securities. 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 us with copies of all the forms they file.

During the year ended December 31, 2009, based upon our knowledge of stock transfers, a review of copies of these reports and written representations by persons subject to Section 16(a) as furnished to us, except as noted below, all executive officers, directors, and greater than ten percent beneficial owners of our common stock complied with Section 16(a) filing requirements applicable to us. We have a program to oversee the compliance of our executive officers and directors in their reporting obligations.

As discussed in this proxy statement under *Director Compensation*, William J. McDonald, a director, has elected a monthly conversion of the cash portion of his director s fees into stock units that are deferred until his resignation as a director of the Company. On January 15, 2009 and February 13, 2009, through an administrative error at the third party service provider that we use to administer the Humana Inc. Deferred Compensation Plan for Non-Employee Directors, Mr. McDonald s monthly conversion of director fees into stock units were not reported to the Company in a timely fashion, and therefore were not reported on Form 4 pursuant to the requirements of Section 16(a). Mr. McDonald s shares continue to be held in the deferred Humana Common Stock Fund. Promptly upon learning of these two transactions, we reported them on Form 4 on March 9, 2009, and we have strengthened our controls to prevent this from re-occurring.

Security Ownership of Certain Beneficial Owners of Company Common Stock

Principal Stockholders of the Company

We know of no person or entity that may be deemed to own beneficially more than 5% of our outstanding common stock except for:

Fairholme Capital Management, L.L.C. 4400 Biscayne Boulevard, 9th Floor Miami, FL 33137	15,879,600 shares	9.33% (1)(2)
BlackRock, Inc. 40 East 52nd Street New York, New York 10022	14,993,215 shares	8.81%(1)(3)
Wellington Management Company, LLP 75 State Street Boston, MA 02109	11,428,520 shares	6.72%(1)(4)

(1) The percentage of ownership is based on 170,180,050 shares of our common stock outstanding as of December 31, 2009.

(2) Based upon a Schedule 13G filed jointly with the SEC for the period ended December 31, 2009, Fairholme Capital Management, L.L.C., Fairholme Funds, Inc. and Bruce R. Berkowitz report that 15,879,600 shares are owned, in the aggregate, by various investment vehicles

managed by Fairholme Capital Management, L.L.C. of which 12,831,600 shares are owned by Fairholme Funds, Inc. Because Bruce R. Berkowitz, in his capacity as the Managing Member of Fairholme Capital Management, L.L.C.

Table of Contents

or as President of Fairholme Funds, Inc., has voting or dispositive power over all shares beneficially owned by Fairholme Capital Management, L.L.C., he is deemed to have beneficial ownership of all such shares reported in the Schedule 13G.

(3) Based upon a Schedule 13G filed with the SEC for the period ended December 31, 2009, BlackRock, Inc. reports that it has sole power to vote 14,993,215 shares and has dispositive power over 14,993,215 shares. As previously announced by BlackRock, Inc., on December 1, 2009, BlackRock, Inc. completed its acquisition of Barclays Global Investors, NA and certain of its affiliates (the BGI Entities) from Barclays Bank PLC. As a result, this amount includes shares held by substantially all of the BGI Entities.

(4) Based upon a Schedule 13G filed with the SEC for the period ended December 31, 2009, Wellington Management Company, LLP reports that in its capacity as investment adviser, it may be deemed to beneficially own shares which are held of record by its clients, and it therefore has shared power to vote 2,766,610 shares and has shared dispositive power over 11,428,520 shares.

Security Ownership of Directors and Executive Officers

The following table shows stock ownership by (i) each of our director-nominees, (ii) our President and Chief Executive Officer, our Chief Financial Officer, and each of our three other highest compensated executive officers serving at December 31, 2009 (which we refer to in these proxy materials as our Named Executive Officers), and (iii) by the director-nominees and all executive officers as a group as of February 26, 2010, unless otherwise indicated.

	Company Common Stock Beneficially Owned as of February 26, 2010 (1)(2)(3)	**Percent of Class as of February 26, 2010 (4)**
David A. Jones, Jr.	372,088	
Frank A. D Amelio	26,777	
W. Roy Dunbar	9,687	
Kurt J. Hilzinger	24,702	
Michael B. McCallister	1,251,030	
William J. McDonald	250	
William E. Mitchell	0	
David B. Nash, M.D.	0	
James J. O Brien	1,000	
Marissa T. Peterson	1,347	
W. Ann Reynolds, Ph.D.	51,779	
James H. Bloem	207,502	
James E. Murray	488,497	
Paul B. Kusserow	43,333	
V. Rajamannar Madabhushi	20,000	
All directors and executive officers as a group (21 in number, including those named above)	3,215,303	1.89

(1) Beneficial ownership of Shares, for purposes of this Proxy Statement, includes Shares as to which a person has or shares voting and/or investment power. Therefore, any restricted stock for which a person has voting power and all share equivalents in the Humana Retirement & Savings Plan are included. These footnotes describe whenever an individual shares voting and/or investment power over the Shares beneficially owned by them.

Table of Contents

The number of Shares listed:

(a) Includes certain Share equivalents held for the benefit of the individuals in the Humana Retirement & Savings Plan as of January 31, 2010, over which the employee participant has voting power and investment power. They are as follows:

Michael B. McCallister	38,771
James H. Bloem	0
James E. Murray	23,179
Paul B. Kusserow	0
V. Rajamannar Madabhushi	0
All executive officers as a group (numbering 11, including those named herein)	79,486

(b) Includes Shares which may be acquired by these individuals through the exercise of options, which are exercisable currently or within 60 days after February 26, 2010 under the 1996 Stock Incentive Plan for Employees or the 2003 Stock Incentive Plan. They are as follows:

David A. Jones, Jr.	17,500
Frank A. D Amelio	17,500
W. Roy Dunbar	0
Kurt J. Hilzinger	17,500
Michael B. McCallister	711,401
William J. McDonald	0
William E. Mitchell	0
David B. Nash, M.D.	0
James J. O Brien	0
Marissa T. Peterson	0
W. Ann Reynolds, Ph.D.	17,500
James H. Bloem	165,404
James E. Murray	355,890
Paul B. Kusserow	33,333
V. Rajamannar Madabhushi	0
All directors and executive officers as a group (numbering 21, including those named herein)	1,766,879

Table of Contents

(2) Certain directors have deferred the stock awards pursuant to our Deferred Compensation Plan for Non-Employee Directors. These Shares are not included in the totals reported above. The initial award of 7,500 restricted stock units to each of Messrs. McDonald, Mitchell and O Brien, Dr. Nash and Ms. Peterson is also not included in the totals reported above. As of February 26, 2010, which includes the awards in January 2010, the Shares deferred were as follows:

David A. Jones, Jr.	5,022
Frank A. D Amelio	14,275
W. Roy Dunbar	14,029
Kurt J. Hilzinger	11,808
William J. McDonald	20,048
William E. Mitchell	13,625
David B. Nash, M.D.	10,272
James J. O Brien	19,180
Marissa T. Peterson	13,649
W. Ann Reynolds	7,756

(3) As of February 26, 2010, no shares of stock are pledged by any of our Executive Officers or Directors.

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

COMPENSATION DISCUSSION AND ANALYSIS

A. Executive Summary

We view our compensation program as a means of continuing our investment in human capital that will drive high performance and success in the marketplace. This Compensation Discussion and Analysis discusses our compensation policies and practices, describing each element of compensation and the decision-making process that supports it. It addresses how we compensate our Named Executive Officers, and how we uphold our compensation standards through a governance system that includes internal oversight as well as expert outside review.

Our compensation program for our Named Executive Officers supports our philosophy that compensation should be market-based, competency-paced and contribution-driven. Our compensation programs are designed to challenge participants as well as reward them for superior performance for our company and our stockholders. In furtherance of this philosophy, we believe that our compensation program must:

- Support our business strategy, be competitive, and provide significant rewards for outstanding financial and individual performance;
- Align with stockholders interests by including a significant portion of executive pay that is at risk in the form of both annual incentive awards that are paid, if at all, based on Company performance, and, in the case of longer term incentive awards, tied closely to increases in the Company s stock price; and
- Attract, motivate and retain highly qualified executives.

In setting executive compensation, the Board s Organization & Compensation Committee, referred to in this report as the Committee, reviews data from a group of comparable peer companies, selected based on line of business considerations, size and market capitalization, which we refer to as our peer group. In 2009, we continued our strategy of targeting the total compensation of our Named Executive Officers to approximate the median compensation level at our peer group.

We believe that our salaries, programs, policies and practices for 2009, disclosed in this report and in the tables that follow, demonstrate that our compensation philosophy and program achieve our compensation goals, and that the total mix of compensation provided to our Named Executive Officers is consistent with a philosophy of motivation and reward. For a discussion of the assessment performed by our Organization & Compensation Committee of the risks associated with our compensation practices and policies, including a consideration of the counterbalance of risk-taking incentives and risk-mitigating factors in Company practices and policies, please see the section entitled, *Corporate Governance Organization & Compensation Committee Compensation Risk Determination* in this proxy statement.

Table of Contents

B. Setting the Compensation of Named Executive Officers

Our Named Executive Officer compensation includes direct compensation that is:

- Market-based Competitive with our peer group and general industry standards; targeted on average at market medians, but typically ranging from the 25th to 75th percentiles, depending on the level of competency and contribution;
- Competency-paced Flexible enough to match the progress of fast-rising performers but resistant to salary advancement for those whose competency level has remained static;
- Contribution-driven Reward those who make a difference, creating meaningful compensation distinctions among different levels of performance and achievement, while avoiding annual compensation actions that foster an entitlement mentality;

Named Executive Officer compensation also includes indirect compensation in the form of a mix of benefit programs that promote security and well-being, including health benefits, life and disability coverage that provides income protection, retirement plans, and services accessed or purchased on a group basis to assist in the maintenance of an appropriate work/life balance. We seek to provide cost-effective benefits that are competitive with our peer companies and industry benchmarks, and arrived at through a deliberate process of internal benchmarking.

Our Chief Executive Officer, with guidance from the Chief Human Resources Officer, discusses with the Committee his recommendations for the compensation of his direct reports and the rationale for those recommendations. The Committee s independent consultant, Frederic W. Cook & Co., Inc., or Cook, provides guidance to the Committee when determining the Chief Executive Officer s compensation. The Committee independently makes all decisions.

Setting Compensation External Benchmarking

We benchmark our compensation and benefits practices to other publicly traded companies that are comparable to us in significant ways. For Named Executive Officers, we use comparisons from competitors within our peer group, based on revenue size and profitability, as well as our closest industry competitors. Using different comparative measures (e.g., industry, market cap, etc.) yields multiple perspectives that enrich our understanding of competitive executive pay practices. Company comparators are reviewed every other year to ensure continued appropriateness of our compensation program. We believe benchmarking with reference to the peer group provides the Company with the most comprehensive means of ensuring that our senior-level compensation is peer-competitive.

For 2009, companies included in our peer group are those:

(i) with whom we compete for talent; and

(ii) whose revenues, market capitalization, and business focus are similar to Humana s.

Table of Contents

In February 2009, the Committee made certain adjustments to our peer group to take into consideration merger and acquisition activity and the receipt by certain companies of funds under the U.S. Treasury Troubled Asset Relief Program (TARP). The Committee approved the following peer group of public companies to serve as our benchmark:

Aetna Inc.	Express Scripts, Inc.	Progressive Corp.
AFLAC Inc.	Genworth Financial Corp.	The Travelers Companies, Inc.
Allstate Corp.	Hartford Financial Services Group, Inc.	UnitedHealth Group, Inc.
CIGNA Corporation	Health Net, Inc.	Unum Group
CNA Financial Corporation	MedcoHealth Solutions, Inc.	Wellpoint, Inc.
Coventry Health Care, Inc.	Principal Financial Group, Inc.	

We use this competitive market data as a starting point for our analysis. In addition, we take into consideration an executive s overall performance, his or her potential, the presence of any unique or hard-to-replace skills, as well as the executive s judgment, leadership ability and competencies. The performance of the executive s business function and his or her ability to build teams and develop talent are also factors. Finally, we consider the overall performance of the Company.

Ultimately, we must distill all of these factors and apply our best judgment when determining executive pay. Such judgment should produce a total compensation package that is reasonable as compared to our business prospects, based on our long-term business plans. This allows the Committee to set a compensation package that it believes will:

(i) appropriately motivate and challenge our Named Executive Officers without encouraging undue risk to the Company; and

(ii) achieve an appropriate balance between the prospects for the Company and our stockholders and the compensation of our Named Executive Officers.

Setting Compensation Internal Benchmarking

The process for establishing specific levels for each component of pay is based on an assessment of market pay data, as described above, and an internal benchmarking of the compensation of our top 100 executives, including our Named Executive Officers, a process that ensures the integrity of our compensation program throughout our leadership tier. This internal study considers the relativity of pay between all the Named Executive Officers and the total compensation of the Chief Executive Officer.

C. Components of Compensation for Named Executive Officers

The components of our compensation program for Named Executive Officers in 2009 were:

- *Base salary*, targeted at market medians, but typically ranging from the 25th to the 75th percentile, with the actual levels of base salary based primarily upon the experience, competency and contributions of individual executives;
- *Annual cash incentives*, set at specified percentages of each Named Executive Officer s base salary, dependent upon the achievement of financial performance targets;
- *Equity awards*, incentivizing through competitive levels of long-term equity compensation designed to motivate leaders to achieve attractive long-term stockholder returns;
- *Retirement Plans*, providing the opportunity for retirement income that will motivate high-potential leaders to pursue a long-term career with the Company;
- *Severance*, providing for certain payments in the event of termination of employment; and

Table of Contents

Perquisites, including a matching annual charitable gift program; life insurance benefits; financial planning assistance; and limited personal use of Company aircraft.

Base Salary

Base compensation for our Named Executive Officers is determined by an assessment of:

- overall Company performance;
- individual Named Executive Officer performance;
- internal pay equity;
- changes in individual Named Executive Officer responsibilities; and
- relevant external benchmarking.

While vital aspects of performance can be measured in financial terms, we also evaluate executive management in areas that must be assessed more subjectively. These include the development and execution of strategic plans, the exercise of leadership in the development of management talent, innovation and improvement in our products and processes, as well as the executive s involvement in industry groups and in the communities that we serve.

We generally target the market median when establishing individual salaries, and they typically range from the 25th to the 75th percentile. Base salary levels are established to ensure the attraction, development and retention of superior talent while also taking into account an individual executive s performance. For Messrs. McCallister, Bloem and Murray, base salaries were established, in conjunction with other components of total compensation, to approximate the market median. Messrs. Kusserow and Madabhushi, two of the Named Executive Officers each hired in 2009, received initial base salary levels above market median percentiles in order to retain their services in our highly competitive market. In February 2009 the Committee determined that, despite their excellent performance, due to the financial pressures facing the Company as a result of the ongoing economic turmoil, our Named Executive Officers would not receive base salary increases. For 2010, however, our Named Executive Officers, with the exception of Mr. McCallister, have been awarded an average base salary increase of 1%. At Mr. McCallister s request, despite the performance of the Company during 2009, the Committee did not grant Mr. McCallister an increase in base salary for 2010. Base salaries of the Named Executive Officers in 2009, and their relationship to market medians, are listed in the table below.

Named Executive Officer	2009 Base Salary	2009 Market Median(1)
Michael B. McCallister	$1,025,000	$1,059,750
James H. Bloem	$545,000	$586,300
James E. Murray	$670,000	$692,100
Paul B. Kusserow	$465,000	$315,700
V. Rajamannar Madabhushi	$500,000	$437,250

(1) Based on relevant external benchmarking and the proxy statements of the peer group in February 2009.

Annual Cash Incentives

Incentive Plan Objectives

Our annual incentive compensation plans ensure a portion of each Named Executive Officer s compensation is at risk by linking such portion of compensation to certain key performance objectives and rewarding them, when appropriate, for their efforts in optimizing

Table of Contents

our profitability and growth consistent with sound and ethical business practices and appropriate risk-taking.

Description of the Plan for Named Executive Officers

The Humana Inc. Executive Management Incentive Compensation Plan, which we refer to as the Management Incentive Plan, is administered by the Committee. The Committee annually selects those executive officers and other key executives eligible to participate in the Management Incentive Plan and establishes specific performance targets based on predetermined business goals, and an objective formula or standard to determine the minimum and maximum awards payable to each participating executive. The Committee has sole discretion to determine the form, amount and terms of each award, which need not be uniform among the persons eligible to receive awards. The Committee may determine at the time the performance targets are established that certain adjustments will be made in evaluating whether the performance targets have been met (e.g., disposition or acquisition of a business, gains or losses resulting from material litigation, or the effect of changes in accounting principles during the performance period). During 2009, our Named Executive Officers participated in the Management Incentive Plan.

2009 Management Incentive Plan Compensation

For all Named Executive Officers, the 2009 performance target was based on the attainment of a pre-established earnings per share, or EPS, objective. The Committee selected this single performance target because it believed that those with the greatest responsibility for the strategy, implementation and success of the organization should have a substantial portion of their compensation linked to the achievement of this financial goal. The Committee felt that attainment of an EPS goal was the best reflection of the success of our business plan, and the goal was therefore established to provide a direct link between executive compensation and this key performance objective of the Company.

For the EPS objective in 2009, there were threshold, target and maximum achievement payout levels that impacted the final value of the award. The EPS target for 2009 of $6.00 was based on our business plans and reflected the initial earnings per share guidance that we provided to our stockholders. The target was considered a challenging goal, based on the prospects of our government and commercial businesses and an uncertain economy. Performance below the threshold of $5.40 EPS yielded no award. The maximum of $6.30 was set to encourage increased performance within a tolerable risk. The percentages of 2009 base earnings paid at each of the threshold, target and maximum levels were established through a process of external benchmarking of total compensation against our external peer group. These percentages furthermore reflect our philosophy of targeting total compensation to the median, while recognizing that a significant percentage of total compensation should be performance-based. The uniform target percentages (with the exception of Mr. McCallister) and performance measures also emphasize the importance of a teamwork approach among our Named Executive Officers.

Table of Contents

The following table sets forth the potential range of payments our Named Executive Officers could have earned under the Management Incentive Plan, in total dollars and as a percentage of 2009 base earnings:

		Threshold		Target		Maximum	
		EPS of $5.40		EPS of $6.00		EPS of $6.30	
Named Executive Officer	2009 Base Earnings	% of Base	MIP Payment	% of Base	MIP Payment	% of Base	MIP Payment
Michael B. McCallister	$ 1,025,000	75%	$ 768,750	150%	$ 1,537,500	200%	$ 2,050,000
James H. Bloem	$ 545,000	50%	$ 272,500	100%	$ 545,000	150%	$ 817,500
James E. Murray	$ 670,000	50%	$ 335,000	100%	$ 670,000	150%	$ 1,005,000
Paul B. Kusserow	$ 406,397	50%	$ 203,199	100%	$ 406,397	150%	$ 609,596
V. Rajamannar Madabhushi	$ 342,466	58.4%(1)	$ 200,000(1)	100%	$ 342,466	150%	$ 513,699

(1) As part of Mr. Madabhushi s engagement, he was guaranteed a minimum payment under the Management Incentive Plan of $200,000 for 2009.

For 2009, since our EPS increased to $6.15, performance fell between the target and maximum levels. Payments for the Named Executive Officers consequently ranged from 125%-175% of annual base earnings, as provided in the table above. See the Summary Compensation Table in the Executive Compensation section of this proxy statement for the specific amounts paid to the Named Executive Officers.

Equity Awards

In 2009, we used a mix of stock options and restricted stock awards to compensate our Named Executive Officers, an equity compensation program which we believe provides an appropriate balance between inducement, retention and motivation of executives and the creation of stockholder value. Equity-based compensation provides a vital link between the long-term results achieved for our stockholders and the financial rewards provided to our Named Executive Officers. We use a mix of stock options and restricted stock awards to compensate our Named Executive Officers because we believe that each form of equity compensation provides us with different benefits.

Stock Options. The value of our stock option grants reflects the economic performance of the Company over time. We use stock options to motivate and challenge our executives to achieve positive returns for our stockholders by placing key elements of executive compensation at risk, with a secondary benefit of retention derived from vesting conditions imposed on the stock options and a non-compete covenant embedded in our stock option agreements.

Restricted Stock. Restricted stock generally provides value regardless of whether our stock price increases from the date of grant. We use restricted stock grants for inducement and retention purposes and to motivate and challenge our executives. A secondary benefit is derived from the potential added appreciation opportunity as our stock price increases, as well as retention derived from vesting conditions imposed on the restricted stock and a non-compete covenant embedded in our restricted stock agreements.

All stock options and restricted stock awards are granted at regularly scheduled meetings of our Board of Directors, or of the Committee. The Committee, with the assistance of Cook and management, determines the aggregate amounts and terms of stock option and restricted stock awards for each Named Executive Officer following a review of stock programs and competitive practices at peer companies, along with an analysis of equity cost.

Table of Contents

The value of each award reflects the executive s level of responsibility and contributions to the Company s performance. In making equity awards, the Committee reviews and approves the dollar value of an award to be granted to each Named Executive Officer, based on the internal and external benchmarking of total compensation discussed above. The number of shares subject to the award is then determined using the fair market value of the option on the grant date, which, in the case of stock options, is determined by the Black-Scholes methodology.

The stockholder-approved 2003 Stock Incentive Plan provides that all stock options are granted at the average of the high and low stock trading price on the NYSE (fair market value) on the date of grant. We have a policy of not making equity awards when we are aware of any material non-public information. For the last several years, the annual Company-wide option and restricted share awards have been made at the Committee meeting held in the first quarter of the year, following the announcement of annual results for the prior year. The Board and Committee schedules are determined more than a year in advance. In addition to the annual grant, options and/or restricted stock are granted for promotions, new hires, retention purposes, or increases in responsibilities at the six regularly scheduled meetings of the Board or the Committee.

2009 Awards

In 2009, Messrs. McCallister, Bloem and Murray were awarded stock options designed, in conjunction with other components of total compensation, to approximate the market median, as described above. Messrs. Kusserow and Madabhushi were awarded grants of both stock options and restricted stock in order to induce them to join our company in a highly competitive market, and for the retention benefit of such awards.

The table that follows this report entitled, Grants of Plan-Based Awards, shows the number of stock options and restricted stock awarded to each Named Executive Officer and the total expense for each award calculated using the fair value of the award on the date of grant. On December 16, 2009, the SEC adopted amendments to the proxy disclosure rules that, in relevant part, require disclosure of the aggregate grant date fair value of stock awards and option awards granted in the fiscal year calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Compensation Stock Compensation*, rather than the dollar amount recognized for financial statement purposes for the fiscal year, as previously required. The amount of the grant date fair value of stock awards in 2009, as well as awards in prior periods adjusted for this new rule as required, is shown in columns (e) Stock Awards and (f) Option Awards of the table below entitled, Summary Compensation Table.

The table that follows this report entitled, Outstanding Equity Awards at Fiscal Year-End, lists the options and restricted stock outstanding by grant date and price for each Named Executive Officer. These awards reflect the years of service of each Named Executive Officer and the frequency with which an individual exercises the options granted.

The Committee routinely reviews the outstanding equity information for each executive officer to examine the value of prior compensation decisions, and the value of outstanding equity awards may be taken into account in establishing the level of equity awards to be made.

Table of Contents

Retirement

During 2009, we had two retirement plans covering our Named Executive Officers:

- The Humana Retirement and Savings Plan, (available to all associates) is a qualified, combined retirement plan and 401(k) plan providing for both participant and Company contributions; and
- The nonqualified Supplemental Executive Retirement and Savings Plan (Supplemental Plan) restores, on a nonqualified basis, Company contributions to the Humana Retirement and Savings Plan, which are restricted by the Internal Revenue Service, or IRS, compensation limits.

For additional details on our retirement plans see the table entitled Nonqualified Deferred Compensation which covers our Supplemental Plan, and the section entitled Potential Payments Upon Termination or Change in Control, which discusses all of our retirement plans.

We believe that our retirement programs will provide our executives with competitive levels of income replacement upon retirement, reflecting the executive s years of service with our Company, and provide us with a package that will both attract and retain key talent in the Company. The potential payments under these plans are described in the tables that follow this report.

Severance/Change in Control

Mr. McCallister

On May 16, 2008, we entered into an amended and restated employment agreement with Michael B. McCallister, our President and Chief Executive Officer, which we refer to as the McCallister Employment Agreement. The McCallister Employment Agreement has an initial term ending on December 31, 2010, which will be automatically renewed for successive periods of one year unless terminated by either party upon sixty days written notice. Mr. McCallister is the only executive officer who would be entitled to a tax gross-up payment in the event he is subject to an excise tax pursuant to Section 4999 of the Internal Revenue Code on parachute payments to which he is entitled to receive in connection with a Change in Control. The effect of this gross-up would be to maintain Mr. McCallister in the same financial position that he would have been in had no tax under Section 4999 of the Code been imposed. Notwithstanding the above, in the event that a reduction of Mr. McCallister s Change in Control payments by 10% or less, but not more than $200,000, would cause none of the payments to be considered excess parachute payments, Mr. McCallister would not be entitled to a gross-up payment and the payments would be reduced to the extent necessary so that none of the payments would be considered excess parachute payments.

We believe that the excise tax gross-up provided for in the McCallister Employment Agreement is appropriate in order to avoid a possible discriminatory impact of the excise tax rules. We believe it appropriate for Mr. McCallister to retain the same payment that he would have retained had the excise tax not been imposed, allowing him to recognize the full intended economic benefit of the severance provisions of the McCallister Employment Agreement. However, in March 2009, the Committee determined that the Company will not enter into any new or materially amended agreements with executive officers that include excise tax gross-up provisions with respect to payments contingent upon a change in control. This determination will have no effect on the McCallister Employment Agreement unless that agreement is materially modified or amended.

For a more detailed discussion of the McCallister Employment Agreement and the benefits payable to Mr. McCallister in the event of a Change in Control of the Company, please refer to footnote 1 to the table entitled, Potential Payments Upon Termination or Change in Control of the Company.

Other Named Executive Officers

We operate in a highly competitive, complex and consolidating industry. Therefore, we have entered into Change in Control severance agreements, which we refer to as CIC Agreements, with all executive officers, including our Named Executive Officers (except for Mr. McCallister, whose severance is governed by the McCallister Employment Agreement, as described above). Pursuant to the CIC Agreements, for a two-year period following a Change in Control of the Company, certain benefits will be provided to these executives upon termination (whether involuntary or due to a resignation as a result of a change in responsibilities, location, or compensation).

Under the CIC 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 target incentive compensation payable to him or her, by a multiple ranging from one to one and one-half. Each of the Named Executive Officers would receive a payment in the amount of one and one-half times the sum of their base salary and maximum target incentive payment in the event of a qualified termination of employment within a two year period following a Change in Control. In addition, in the event of a Change in Control, generally all unvested Company options and all unvested restricted stock immediately vest. Health, life and disability insurance coverage would be provided, generally for a two-year period following termination unless the participant dies or is eligible for comparable coverage from another source.

All of the CIC Agreements (including the Change in Control provisions of the McCallister Employment Agreement) provide for a double trigger (i.e., two events must occur before any payment is made: the executive officer must be terminated or constructively terminated as described in the CIC Agreement, and such termination must have occurred after the Company entered into a definitive agreement, the consummation of which would result in a Change in Control, or the Change in Control has occurred). The Committee opted for a double-trigger, rather than providing for severance payments solely on the basis of a Change in Control, because we believe this to be more consistent with the purpose of encouraging the continued employment of our Named Executive Officers following a Change in Control. In the health benefits industry, mergers and acquisitions resulting in a Change in Control are common. We believe that the CIC Agreements for our Named Executive Officers allow our executives to devote their time to the duties of running our Company without being distracted by a potential Change in Control. Furthermore, the CIC Agreements have a significant retention value to the Company with respect to our Named Executive Officers. We believe that the severance multiples provided for in the CIC Agreements are appropriate because they are comparable to similarly situated senior executives across U.S. industries. For a discussion of the payments each of our Named Executive Officers would receive in the event of a Change in Control, see the section entitled Potential Payments Upon Termination or Change in Control of the Company that follows this report.

Table of Contents

Perquisites

We also provide certain other benefits to our Named Executive Officers as part of our competitive compensation program. The amounts expended through these programs are explained in detail in the footnotes that follow the Summary Compensation Table. As noted, not all Named Executive Officers participate in each benefit. The benefits include limited personal use of Company aircraft for the Named Executive Officers, an annual physical, a matching charitable gift program, supplemental life insurance benefits, financial planning assistance, and club memberships (used for business purposes; if from time to time used for personal reasons, the executive must reimburse the Company).

D. Other Compensation Considerations

Compensation Mix

The key elements of direct executive compensation salary, cash incentives, and equity awards are designed to put a substantial portion of executive pay at risk. While salaries are intended to be assured, the other two elements only have value if certain key performance results are achieved. Cash incentives are paid only upon the achievement of defined financial objectives. Grants of stock options only have value to executives if the value of the company increases through common stock price appreciation. Both stock option and restricted stock awards provide a retention benefit to the Company.

We believe that having a larger measure of key pay elements at risk motivates and challenges our executives to achieve positive returns for our stockholders, reflecting our philosophy that, in addition to being market-based, the total compensation of our Named Executive Officers should be competency-paced and contribution-driven. The chart and table below illustrate the relative mix of pay at risk in 2009 for our Named Executive Officers, comprised of base salary, the potential value of the annual cash incentive earned in 2009 though paid in 2010, and the aggregate grant date fair value of the 2009 grants of restricted stock and stock options (based on a Black-Scholes valuation at the time of grant). See the tables entitled Summary Compensation Table and Grants of Plan-Based Awards that follow this report for greater detail.

Table of Contents

Named Executive Officer	Base Salary	Compensation At-Risk-2009 Annual Incentive	Long-Term Incentive (1)	Total
Michael B. McCallister	17%	26%	57%	100%
James H. Bloem	26%	26%	48%	100%
James E. Murray	23%	24%	53%	100%
Paul B. Kusserow	17%	18%	65%	100%
V. Rajamannar Madabhushi	14%	15%	71%	100%

(1) Includes aggregate grant date fair value of restricted stock and stock option awards.

Clawbacks

In 2009, the Committee adopted a clawback policy to supplement those provisions set forth in the Sarbanes-Oxley Act of 2002 and related regulations.

The clawback policy:

- applies to all executive officers;
- permits the recoupment of compensation in the event of a material restatement of the Company s financials as a result of the misconduct or fraud on the part of the executive officer;
- permits the recoupment of all cash-based incentives earned by the executive officer involved in the misconduct or fraud during the twelve month period following the first public issuance of the financials that are the subject of the restatement; and
- grants discretion to the Committee with respect to the application of the clawback provision.

Stock Ownership Guidelines

The Board believes that linking a significant amount of an executive s current and potential future net worth to the Company s success, as reflected in the stock price, gives the executive a stake similar to that of our stockholders. Consistent with this philosophy, in 2005 the Board of Directors established stock ownership guidelines for the Company s executive officers.

Expressed as a multiple of base salary, minimum levels of Humana common stock ownership, excluding shares held in retirement accounts and unexercised stock options, are:

Chief Executive Officer:	Five times base salary
Direct reports to the Chief Executive Officer:	Three times base salary
All other Section 16 officers:	Two times base salary

In 2009, the Committee added a further condition to the stock ownership guidelines to provide that any shares owned by an executive officer (or shares received upon the exercise of options or vesting of restricted stock, less an amount to cover current tax liabilities) must be held by the executive officer until the relevant multiple is reached and thereafter maintained.

40

Compensation Policies Based on Certain Tax and Accounting Rules

Section 162 (m) of the Internal Revenue Code includes potential limitations on the deductibility of compensation in excess of $1 million paid to the Named Executive Officers serving on the last day of the year. Based on regulations issued by the IRS, we have taken the necessary actions to provide for the deductibility of payments under the Management Incentive Plan, including submitting the Management Incentive Plan to our stockholders for approval. The Management Incentive Plan was approved by our stockholders in April 2008, and became effective as of January 1, 2008, for awards earned during the five-year period ending December 31, 2012.

We view preserving tax deductibility as a contributing objective in establishing executive compensation. In specific instances we have authorized and may continue to authorize from time to time compensation arrangements that are not fully tax deductible, but which promote other important objectives of the Company. The Committee believes that all compensation paid for 2009 will be deductible for federal income tax purposes, except $71,691.

The American Jobs Creation Act of 2004 materially changed the tax rules applicable to nonqualified deferred compensation arrangements, codified in Section 409A of the Internal Revenue Code (Section 409A). Section 409A provides that compensation deferrals under nonqualified deferred compensation plans, like the Company s Supplemental Plan, are currently counted as gross income for all taxable years to the extent that the amounts are not subject to a substantial risk of forfeiture and have not previously been included in gross income, unless certain requirements are met. We believe that the Supplemental Plan, the CIC Agreements, the Management Incentive Plan, and our severance program are in compliance with the statutory provisions currently in effect so that any compensation payable under the plans is properly deferred.

E. Organization & Compensation Committee

All of the members of the Committee are independent, as defined by the NYSE, the SEC and the IRS. The current members of the Committee are Kurt J. Hilzinger, Chairman, W. Roy Dunbar, William J. McDonald, and Marissa T. Peterson. During 2009, the Committee met seven times.

The Committee operates pursuant to a charter which is reviewed and approved each year. There were no changes to the Committee s charter during 2009. The full text of the Committee charter may be viewed on our corporate website. From the www.humana.com web page, click on Investor Relations, then click on View Website then click on Corporate Governance on the right side of the page, and then you will see a link to the Committee Charters on the left side of the page.

F. Compensation Consultants

Since August 2004, the Committee has retained Cook as its independent compensation consultant. Cook s role is to ensure that the Committee has objective information needed to make informed decisions in the best interests of stockholders based on compensation trends and practices in public companies, and to provide assistance to the Committee in evaluating our executive compensation policy and programs. As the Committee s independent consultant, Cook advises on the interpretation of various rules and regulations impacting executive compensation, reviews with the Committee management s proposals and initiatives, provides certain data on competitive pay levels, and undertakes special projects on behalf of the Committee. In 2009, a representative of Cook attended all of the Committee meetings, including, when invited, executive sessions. In accordance with the Committee s Charter, the Committee has the sole authority to determine the compensation for, and to terminate the services of, Cook. For services provided to the Committee in 2009, we paid Cook approximately $243,000.

We have a practice that Cook, as an independent compensation consultant, may not provide any other services to the Company without the prior authorization of the Committee. In 2009 Cook provided no additional services to the Company.

Table of Contents

ORGANIZATION & COMPENSATION COMMITTEE REPORT

The Organization & Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis for the year ended December 31, 2009 with management. In reliance on these reviews and discussions, the Organization & Compensation Committee recommended to the Company s Board of Directors, and the Board of Directors has approved, the inclusion of this Compensation Discussion and Analysis in this Proxy Statement.

All members of the Organization & Compensation Committee of the Company whose names follow submit the foregoing report.

ORGANIZATION & COMPENSATION COMMITTEE

Kurt J. Hilzinger, Chairman

W. Roy Dunbar

William J. McDonald

Marissa T. Peterson

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 last fiscal year by: (1) the President and Chief Executive Officer, (2) the Chief Financial Officer, and (3) each of the three other highest compensated executive officers of the Company serving at December 31, 2009 (collectively, the Named Executive Officers).

As described in our Compensation Discussion and Analysis, for each Named Executive Officer, base salary represented approximately 19%; the potential value of the annual cash incentive in 2009 represented approximately 22% and the aggregate fair value of the 2009 grant of stock options and restricted stock represented approximately 59% of the total compensation as listed below, based on the aggregate fair value of equity awards granted to the Named Executive Officers in 2009.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)(1)	Option Awards($) (f)(1)	Non-Equity Incentive Plan Compensation ($) (g)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)(3)	All Other Compensation ($) (i)(4)	Total ($) (j)
Michael B. McCallister, President &	2009	1,025,000			3,393,474	1,793,750	0	297,228	6,509,452
Chief Executive Officer(5)	2008	1,017,308			3,500,002	0	0	668,104	5,185,414
	2007	973,558			3,000,511	1,950,000	4,438,993	511,321	10,874,383
James H. Bloem, Senior Vice	2009	545,000			1,018,047	681,250	0	81,670	2,325,967
President & Chief Financial	2008	539,665			1,049,990	0	0	169,624	1,759,279
Officer & Treasurer	2007	509,441			1,050,172	765,000	606,011	147,460	3,078,084
James E. Murray, Chief Operating	2009	670,000			1,502,824	837,500	0	125,466	3,135,790
Officer	2008	663,846			1,549,993	0	0	245,071	2,458,910
	2007	629,423			1,550,272	945,000	1,295,058	220,254	4,640,007
Paul B. Kusserow, Senior Vice	2009	406,397		416,633	2,071,470	507,997	0	117,209	3,519,706
President & Chief Strategy Officer	2008								
(6)	2007								
V. Rajamannar Madabhushi, Senior	2009	342,466	218,667	587,266	1,136,660	428,082	0	95,193	2,808,334
Vice President & Chief Innovation	2008								
and Marketing Officer (6)	2007								

(1) On December 16, 2009, the SEC adopted amendments to the proxy disclosure rules that, in relevant part, require disclosure of the aggregate grant date fair value of stock awards and option awards granted in the fiscal year calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Compensation Stock Compensation*, rather than the dollar amount recognized for financial statement purposes for the fiscal year, as previously required. As required by this rule, this table includes the aggregate grant date fair value of option awards or stock awards, as applicable, in 2009, as well as awards in prior periods adjusted for this new rule. Note 13 to the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2009, describes the assumptions used to determine the grant date fair value for overall Company options. The assumptions used for valuing the Named Executive Officers options as a group, applying the Black-Scholes methodology, were as follows:

	2009	2008	2007
Weighted Average Fair Value at Grant Date	$ 14.18	$ 21.93	$ 23.12
Expected Option Life (Years)	4.9	5.4	5.5
Expected Volatility	38.9%	28.1%	30.3%
Risk Free Interest Rate	1.94%	3.0%	4.7%
Dividend Yield	N/A	N/A	N/A

Table of Contents

(2) For a discussion of the potential ranges that could have been paid in 2009 under the Management Incentive Plan, see the Grants of Plan-Based Awards table.

(3) In October 2007, our Officers Target Retirement Plan, a defined benefit plan, was discontinued for active participants. Due to this discontinuance, we no longer have a defined benefit plan for the Named Executive Officers. The amount listed under Change In Pension Value Column (h) for 2007 represents the difference between the Present Value of the Accumulated Benefit under the Officers Target Retirement Plan at December 31, 2006, and the amount actually transferred to the Supplemental Executive Retirement & Savings Plan as of October 31, 2007. This change primarily reflects a shift in methodology from a defined benefit approach (present value of benefits payable at the earliest unreduced retirement age of 65) to a defined contribution approach (present value of benefits payable immediately). At December 31, 2007, there were no benefits remaining in the Officers Target Retirement Plan for any active participants including the Named Executive Officers.

No Named Executive Officer received preferential or above-market earnings on deferred compensation.

(4) The amounts listed under the column entitled All Other Compensation in the Summary Compensation Table above include: Company contributions to the Supplemental Executive Retirement & Savings Plan and the Humana Retirement & Savings Plan; personal use of Company aircraft for the Named Executive Officers and in some cases members of their families; a matching charitable gift program; life insurance benefits; and financial planning assistance. In addition, we pay for club memberships for certain Named Executive Officers. These are used for business purposes, and if used from time to time for personal reasons, the Named Executive Officer must reimburse us for any expense.

Company Contributions to the Supplemental Executive Retirement & Savings Plan *(this amount is also listed in the Nonqualified Deferred Compensation table):*

Michael B. McCallister	$	89,700
James H. Bloem	$	34,500
James E. Murray	$	48,875
Paul B. Kusserow	$	3,712
V. Rajamannar Madabhushi	$	0

Personal Use of Company Aircraft: *The costs of personal use of Company aircraft was based on the aggregate incremental costs to the Company, including the lost tax deduction to the Company and personal deadhead hours.*

Michael B. McCallister	$	132,848
James H. Bloem	$	0
James E. Murray	$	25,539
Paul B. Kusserow	$	0
V. Rajamannar Madabhushi	$	5,825

Matching Charitable Contributions:

Michael B. McCallister	$	25,000
James H. Bloem	$	20,000
James E. Murray	$	22,691
Paul B. Kusserow	$	0
V. Rajamannar Madabhushi	$	0

Financial Planning:

Michael B. McCallister	$	19,688
James H. Bloem	$	0
James E. Murray	$	0
Paul B. Kusserow	$	0

V. Rajamannar Madabhushi	$	8,395

Company Contributions to the Humana Retirement and Savings Plan:

Michael B. McCallister	$	23,903
James H. Bloem	$	23,903
James E. Murray	$	23,903
Paul B. Kusserow	$	6,125
V. Rajamannar Madabhushi	$	0

45

Table of Contents

Other *(Includes life insurance, wellness incentives, reimbursement for relocation expenses, and guest expenses while on business travel):*

Michael B. McCallister	$	6,089
James H. Bloem	$	3,267
James E. Murray	$	4,458
Paul B. Kusserow	$	107,372
V. Rajamannar Madabhushi	$	80,973

(5) On May 16, 2008, we entered into an amended and restated employment agreement with Michael B. McCallister, or Mr. McCallister, which we refer to as the McCallister Employment Agreement, pursuant to which Mr. McCallister will continue to serve as our President and Chief Executive Officer. The McCallister Employment Agreement has an initial term ending on December 31, 2010, which will be automatically renewed for successive periods of one year unless terminated by either party upon sixty days written notice. Pursuant to the McCallister Employment Agreement, Mr. McCallister will be paid an annual base salary of not less than $1,025,000 and will be eligible to participate in all benefit plans and programs made available by us to our employees, including participation in bonus and incentive compensation plans and programs on terms determined by the Organization & Compensation Committee. The McCallister Employment Agreement also provides for payments in the event Mr. McCallister terminates his employment. For a description of these payment provisions see the section entitled Potential Payments Upon Termination or Change in Control of the Company in this Proxy Statement.

(6) Messrs. Kusserow and Madabhushi were hired by the Company during 2009, and therefore received no compensation in 2008 or 2007.

Table of Contents

Grants of Plan-Based Awards

The following table provides information about stock options and restricted stock granted in 2009 under our Amended and Restated 2003 Stock Incentive Plan, which we refer to as the 2003 Stock Plan, and the range of potential payments in 2009 under the Humana Inc. Executive Management Incentive Compensation Plan, which we refer to as the Management Incentive Plan. A discussion of the features of each type of award is included in the footnotes that follow the table.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards N/A			All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards ($/Sh)(4)	Closing Market Price on Grant Date ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
		Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)					
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k-1)	(k-2)	(l)
Michael B. McCallister	01/01/2009	768,750	1,537,500	2,050,000								
	02/19/2009								225,759	41.83	40.93	3,393,474
James H. Bloem	01/01/2009	272,500	545,000	817,500								
	02/19/2009								67,728	41.83	40.93	1,018,047
James E. Murray	01/01/2009	335,000	670,000	1,005,000								
	02/19/2009								99,979	41.83	40.93	1,502,824
Paul B. Kusserow (5)	02/16/2009	203,199	406,397	609,596								
	02/19/2009							10,000			40.93	416,633
	02/19/2009								100,000	41.83	40.93	1,503,140
	04/28/2009								50,000	29.53	28.99	568,330
V. Rajamannar Madabhushi (6)	04/26/2009	200,000(7)	342,466	513,699								
	04/28/2009							20,000			28.99	587,266
	04/28/2009								100,000	29.53	28.99	1,136,660

(1) The actual payment of incentive compensation is shown in the Summary Compensation Table. For the EPS objective, there are threshold, target and maximum achievement payout levels that impact the final value of the award. Performance below the threshold yields no award. Eighty-six percent of the EPS goal must be achieved to reach its threshold payment; the threshold pays at approximately 50 percent of salary for all Named Executive Officers except Mr. McCallister whose threshold payment is 75 percent of salary. See the Compensation Discussion and Analysis contained herein for a discussion of incentive compensation for the Named Executive Officers. The Committee has sole discretion to determine whether to actually pay the entire permissible award, to decrease an award, or to defer payment of any award. The Committee is also authorized to establish additional conditions and terms of payment for awards, including the achievement of other or additional financial, strategic or individual goals, which may be objective or subjective, as it deems appropriate.

The Committee may not waive the basic performance targets as to the business criteria chosen for any performance period.

In addition, our Board of Directors has approved a clawback policy that applies to all executive officers whereby we may recoup compensation in the event of a material restatement in the Company s financials as a result of the misconduct of or fraud on the part of the executive officer. Under the policy, we may recoup all cash-based incentives earned by the executive officer involved in the misconduct or fraud during the twelve month period following the first public issuance of the financials that are the subject of the restatement, subject to the discretion of the Committee to govern the clawback policy s application.

The Organization & Compensation Committee assesses the risks associated with the Company s compensation practices and policies for employees, including a consideration of the counterbalance of risk-taking incentives and risk-mitigating factors in Company practices and policies. For a discussion of this assessment, please refer to the section entitled, *Corporate Governance Organization & Compensation Committee Compensation Risk Determination* in this proxy statement.

(2) The above restricted stock awards were all granted pursuant to the 2003 Stock Plan. The restricted stock awards fully vest three years from the date of grant. In the event of a Change in Control of the Company, as defined in the 2003 Stock Plan, all outstanding restricted stock awards become fully vested. (See the section entitled Potential Payments Upon Termination or Change in Control of the Company herein for a quantification of the acceleration of vesting of restricted stock awards upon a Change in Control.) Upon vesting, the par value of the restricted stock may be paid in cash or, at the discretion of the Organization & Compensation Committee, in Shares of common stock valued at the fair market value on the date of vesting, or in any combination thereof. If dividends were to be declared on the Company s common stock, no dividends would be paid with

Table of Contents

respect to unvested shares of restricted stock. The restricted stock awards were granted by the Organization & Compensation Committee at a regularly scheduled meeting thereof. All Named Executive Officers equity awards contain a non-compete provision.

(3) The above options were all granted pursuant to the 2003 Stock Plan. The options are incentive stock options to the extent allowed by regulation and the balance are nonqualified stock options. The options vest and become exercisable in equal annual one-third installments from the date of grant. The above options expire seven years from the date of grant. In the event of a Change in Control of the Company, as defined in the 2003 Stock Plan, 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 adjusted fair market value and option price as more fully described in the 2003 Stock Plan. (See the section entitled Potential Payments Upon Termination or Change in Control of the Company herein for a quantification of the acceleration of stock options upon a Change in Control.) The exercise price may be paid in cash or, at the discretion of the Organization & Compensation Committee, in Shares of common stock valued at the fair market value on the date of exercise or any combination thereof. Under the 2003 Stock Plan, the Board may not reduce the exercise price for options or stock appreciation rights by repricing or replacing any option award. The options were granted by the Organization & Compensation Committee at a regularly scheduled meeting thereof. All Named Executive Officers equity awards contain a non-compete provision.

(4) Options under the 2003 Stock Plan cannot be granted at less than the Fair Market Value. The Fair Market Value, as defined in the 2003 Stock Plan, is the average of the highest and lowest reported sales prices of our common stock in transactions reported on the NYSE on the grant date. The 2003 Stock Plan was approved by our Board of Directors and by our stockholders.

In February 2010, the Named Executive Officers each received a stock option award having a seven-year term and vesting over a three-year period as follows:

Name	Number of Options
Michael B. McCallister	129,830
James H. Bloem	36,352
James E. Murray	57,125
Paul B. Kusserow	36,352
V. Rajamannar Madabhushi	46,739

The options were awarded at the Fair Market Value on the date of grant of $46.40. The closing price on date of grant was $46.20.

(5) Mr. Kusserow was hired by the Company on February 16, 2009.

(6) Mr. Madabhushi was hired by the Company on April 26, 2009.

(7) As part of Mr. Madabhushi s engagement, he was guaranteed a minimum payment under the Management Incentive Plan of $200,000 for 2009.

Table of Contents

Outstanding Equity Awards at Fiscal Year-End

The following table provides information on the stock option and restricted stock holdings of our Named Executive Officers as of December 31, 2009.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($/Sh) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) N/A (h)(9)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) N/A (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) N/A (j)
Michael B. McCallister	250,000			32.7000	02/24/12[3]				
	150,000			53.9600	02/23/13[7]				
	86,506	43,252		62.1000	02/22/14[4]				
	53,195	106,390		69.4750	02/21/15[1]				
		225,759		41.8300	02/19/16[2]				
James H. Bloem	26,666			32.7000	02/24/12[8]				
	38,830			53.9600	02/23/13[7]				
	30,277	15,138		62.1000	02/22/14[4]				
	15,959	31,916		69.4750	02/21/15[1]				
		67,728		41.8300	02/19/16[2]				
James E. Murray	110,000			32.7000	02/24/12[3]				
	84,720			53.9600	02/23/13[7]				
	13,686			9.2600	03/13/13[5]				
	44,695	22,347		62.1000	02/22/14[4]				
	23,558	47,115		69.4750	02/21/15[1]				
		99,979		41.8300	02/19/16[2]				
Paul B. Kusserow		100,000		41.8300	02/19/16[2]				
						10,000	438,900		
		50,000		29.5300	04/28/16[6]				

V. Rajamannar Madabhushi	100,000	29.5300	04/28/16(6)		
				20,000	877,800

(1) Options granted on 2/21/08 pursuant to the Company s 2003 Stock Incentive Plan, shares will vest ratably over three years, with full vesting on 2/21/11.

(2) Options granted on 2/19/09 pursuant to the Company s 2003 Stock Incentive Plan, shares will vest ratably over three years, with full vesting on 2/19/12.

(3) Options granted on 02/24/05 pursuant to the Company s 2003 Stock Incentive Plan, fully vested.

(4) Options granted on 2/22/07 pursuant to the Company s 2003 Stock Incentive Plan, shares will vest ratably over three years, with full vesting on 2/22/10.

(5) Options granted on 03/13/03 pursuant to the Company s 1996 Stock Incentive Plan, fully vested.

(6) Options granted on 4/28/09 pursuant to the Company s 2003 Stock Incentive Plan, shares will vest ratably over three years, with full vesting on 4/28/12.

(7) Options granted on 02/23/06 pursuant to the Company s 2003 Stock Incentive Plan, fully vested.

(8) Options granted on 02/24/05 pursuant to the Company s 1996 Stock Incentive Plan, fully vested.

(9) Based on the closing stock price on December 31, 2009 of $43.89. Restricted stock awards granted, with respect to Mr. Kusserow on 2/19/09 and with respect to Mr. Madabhushi on 4/28/09, will fully vest three years from the date of grant.

Table of Contents

Option Exercises and Stock Vested

The following table provides information on the stock options exercised by the Named Executive Officers in 2009.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)(2)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Michael B. McCallister	419,111	11,015,385		
James H. Bloem				
James E. Murray	186,300	4,919,669		
Paul B. Kusserow				
V. Rajamannar Madabhushi				

(1) The Value Realized on Exercise is based on the difference between the Fair Market Value of our common stock as reported by the New York Stock Exchange Composite System and the exercise price of the options on the date of exercise. Options exercised may or may not have been sold by a particular Named Executive Officer, and the inclusion in this table of such information should not be understood to imply that such Named Executive Officer is or was in actual receipt of such monies.

(2) No restricted stock vested for the Named Executive Officers in 2009.

Nonqualified Deferred Compensation

The following table and narrative that follows provides information on the Supplemental Executive Retirement & Savings Plan contributions and earnings for the Named Executive Officers in 2009.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
(a)	(b)	(c)(1)	(d)	(e)	(f)
Michael B. McCallister		89,700	1,519,098		8,264,778
James H. Bloem		34,500	185,069		1,073,303
James E. Murray		48,875	479,868		2,673,621
Paul B. Kusserow		3,712	0		3,712
V. Rajamannar Madabhushi		0	0		0

(1) The amounts listed above under Registrant Contributions in Last Fiscal Year (column c) are also included under the All Other Compensation column of the Summary Compensation Table herein.

We have a qualified combined retirement plan and 401(k) plan, the Humana Retirement & Savings Plan, and a nonqualified, unfunded, defined contribution plan, the Supplemental Executive Retirement & Savings Plan. The Internal Revenue Code imposes limitations on the

Table of Contents

contributions that may be made to a qualified plan, like our Humana Retirement & Savings Plan. In 2009, once an individual is paid $245,000 in compensation, both individual and Company contributions to the Pretax Savings Account of the Humana Retirement & Savings Plan must cease. Any Company matching contributions that would have been made to the Pretax Savings Account of the Humana Retirement & Savings Plan are credited to the Supplemental Pretax Savings Account of the Supplemental Executive Retirement & Savings Plan.

Additionally, in 2009, any earnings over $245,000 are excluded when determining retirement benefits as a percentage of income. Any Company contributions that would have been made to the retirement account of the Humana Retirement & Savings Plan due to this limitation are credited to the Supplemental Retirement Account of the Supplemental Executive Retirement & Savings Plan.

The benefits accrued under the Supplemental Executive Retirement & Savings Plan are those Company contributions that cannot be made to the qualified Humana Retirement & Savings Plan because of the IRS limitations. The maximum percentage of compensation (base salary and incentive compensation) that can be contributed by a highly compensated employee to the Humana Retirement & Savings Plan is 35% for 2009. The Company matches 100% of the first 1%, plus 50% of the next 5% of employee salary deferrals. In addition, the Company makes a contribution in an amount equal to 4% of eligible compensation, plus 4% of the amount of eligible compensation that is in excess of the Social Security wage base. Accruals under the Supplemental Executive Retirement & Savings Plan, which is unfunded, are deemed to be invested in the accounts selected by the participants. The Supplemental Executive Retirement & Savings Plan allows daily rebalancing of funds and allows direction of investment elections. Benefits in the Supplemental Executive Retirement & Savings Plan, as directed by the participants, are distributable upon termination of employment, death, total disability, retirement or a Change in Control of the Company. Distribution of benefits may take the form of a lump sum, periodic installments not to exceed twenty (20) years, or an annuity if the Supplemental Executive Retirement & Savings Plan balance exceeds $100,000.

All of the Named Executive Officers eligible for a contribution under the Supplemental Executive Retirement & Savings Plan in 2009 have elected a lump sum payment upon termination.

Table of Contents

Potential Payments Upon Termination or Change in Control of the Company

The Named Executive Officers would each receive certain payments upon termination from the Company which vary in amount depending on the reason for termination. Each Named Executive Officer would also receive a specified payment in connection with a Change in Control of the Company. The table below provides dollar amounts for all potential payments that would be paid by us to each Named Executive Officer under various scenarios involving either a termination or a Change in Control. The amounts disclosed assume the Named Executive Officer s termination under the various scenarios occurred on December 31, 2009. The payments to our Named Executive Officers are governed by the various agreements or arrangements described in the footnotes to the table (with the exception of Mr. McCallister, whose payments are governed by the McCallister Employment Agreement). The timing of the payments described below to the Named Executive Officers may also be subject to the provisions of Section 409A which may delay payment.

Name and Form of Payment	**Voluntary Termination (a)**	**Involuntary Termination without Cause (b)**	**Involuntary Termination for Cause (c)**	**Retirement (d)**	**Death or Disability(6) (e)**	**Change in Control(4) (f)**
Michael B. McCallister(1)						
Severance	$ 1,025,000	$ 2,050,000	$ 0	$ 0	$ 2,050,000	$ 6,406,250
Life, Health & Other Benefits**(6)**	19,642	19,642	0	19,642	19,642	41,249
Stock Options (accelerated)**(3)**	0	530,534	0	0	530,534	530,534
Excise Tax Gross up**(7)**	0	0	0	0	0	0
Subtotal: Termination Related Payments	**$ 1,044,642**	**$ 2,600,176**	**$ 0**	**$ 19,642**	**$ 2,600,176**	**$ 6,978,033**
Stock Options (vested)**(3)**	2,870,000	2,870,000	0	2,870,000	2,870,000	2,870,000
Supplemental Retirement Plan**(5)**	8,264,778	8,264,778	8,264,778	8,264,778	8,264,778	8,264,778
Subtotal: Currently Vested Amounts	**$ 11,134,778**	**$ 11,134,778**	**$ 8,264,778**	**$ 11,134,778**	**$ 11,134,778**	**$ 11,134,778**
Mr. McCallister s Totals	**$ 12,179,420**	**$ 13,734,954**	**$ 8,264,778**	**$ 11,154,420**	**$ 13,734,954**	**$ 18,112,811**
James H. Bloem						
Severance **(2)**	$ 0	$ 817,500	$ 0	$ 0	$ 0	$ 2,043,750
Life, Health & Other Benefits**(6)**	16,789	16,789	0	16,789	16,789	35,257
Stock Options (accelerated)**(3)**	0	0	0	0	159,161	159,161
Subtotal: Termination Related Payments	**$ 16,789**	**$ 834,289**	**$ 0**	**$ 16,789**	**$ 175,950**	**$ 2,238,168**
Stock Options (vested)**(3)**	306,126	306,126	0	306,126	306,126	306,126
Supplemental Retirement Plan**(5)**	1,073,303	1,073,303	1,073,303	1,073,303	1,073,303	1,073,303
Subtotal: Currently Vested Amounts	**$ 1,379,429**	**$ 1,379,429**	**$ 1,073,303**	**$ 1,379,429**	**$ 1,379,429**	**$ 1,379,429**
Mr. Bloem s Totals	**$ 1,396,218**	**$ 2,213,718**	**$ 1,073,303**	**$ 1,396,218**	**$ 1,555,379**	**$ 3,617,597**

Name and Form of Payment	Voluntary Termination (a)	Involuntary Termination without Cause (b)	Involuntary Termination for Cause (c)	Retirement (d)	Death or Disability(6) (e)	Change in Control(4) (f)
James E. Murray						
Severance**(2)**	$ 0	$ 1,005,000	$ 0	$ 0	$ 0	$ 2,512,500
Life, Health & Other Benefits**(6)**	13,339	13,339	0	13,339	13,339	28,013
Stock Options (accelerated)**(3)**	0	0	0	0	234,951	234,951
Subtotal: Termination Related Payments	**$ 13,339**	**$ 1,018,339**	**$ 0**	**$ 13,339**	**$ 248,290**	**$ 2,775,464**
Stock Options (vested)**(3)**	1,740,715	1,740,715	0	1,740,715	1,740,715	1,740,715
Supplemental Retirement Plan**(5)**	2,673,621	2,673,621	2,673,621	2,673,621	2,673,621	2,673,621
Subtotal: Currently Vested Amounts	**$ 4,414,336**	**$ 4,414,336**	**$ 2,673,621**	**$ 4,414,336**	**$ 4,414,336**	**$ 4,414,336**
Mr. Murray s Totals	**$ 4,427,675**	**$ 5,432,675**	**$ 2,673,621**	**$ 4,427,675**	**$ 4,662,626**	**$ 7,189,800**
Paul B. Kusserow						
Severance**(2)**	$ 0	$ 465,000	$ 0	$ 0	$ 0	$ 1,743,750
Life, Health & Other Benefits**(6)**	17,322	17,322	0	17,322	17,322	36,377
Stock Options and Restricted Stock (accelerated)**(3)**	0	0	0	0	1,406,400	1,406,400
Subtotal: Termination Related Payments	**$ 17,322**	**$ 482,322**	**$ 0**	**$ 17,322**	**$ 1,423,722**	**$ 3,186,527**
Stock Options and Restricted Stock (vested)**(3)**	0	0	0	0	0	0
Supplemental Retirement Plan**(5)**	3,712	3,712	3,712	3,712	3,712	3,712
Subtotal: Currently Vested Amounts	**$ 3,712**	**$ 3,712**	**$ 3,712**	**$ 3,712**	**$ 3,712**	**$ 3,712**
Mr. Kusserow s Totals	**$ 21,034**	**$ 486,034**	**$ 3,712**	**$ 21,034**	**$ 1,427,434**	**$ 3,190,239**
V. Rajamannar Madabhushi						
Severance**(2)**	$ 0	$ 500,000	$ 0	$ 0	$ 0	$ 1,875,000
Life, Health & Other Benefits**(6)**	17,530	17,530	0	17,530	17,530	36,814
Stock Options and Restricted Stock (accelerated)**(3)**	0	0	0	0	2,342,800	2,342,800
Subtotal: Termination Related Payments	**$ 17,530**	**$ 517,530**	**$ 0**	**$ 17,530**	**$ 2,360,330**	**$ 4,254,614**
Stock Options and Restricted Stock (vested)**(3)**	0	0	0	0	0	0
Supplemental Retirement Plan**(5)**	0	0	0	0	0	0
Subtotal: Currently Vested Amounts	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Mr. Madabhushi s Totals	**$ 17,530**	**$ 517,530**	**$ 0**	**$ 17,530**	**$ 2,360,330**	**$ 4,254,614**

Table of Contents

(1) McCallister Employment Agreement

On May 16, 2008, we entered into an amended and restated employment agreement with Mr. McCallister, which we refer to as the McCallister Employment Agreement, pursuant to which he will continue to serve as our President and Chief Executive Officer at an annual base salary in an amount not less than $1,025,000, and will be eligible to participate in all benefit plans and programs made available by us for our employees, including participation in bonus and incentive compensation plans and programs on terms determined by the Organization and Compensation Committee.

If the McCallister Employment Agreement is terminated (i) by us without Good Cause, (ii) by Mr. McCallister for Good Reason, (iii) by the Company at the end of the initial or any renewal term by reason of non-renewal, or (iv) due to Mr. McCallister s death or disability, we would pay to Mr. McCallister, at the same time bonuses are paid to other participants (or such later date as may be required by Section 409A), a prorated bonus calculated on the basis of target performance in the case of termination by reason of death or disability and on the basis of actual performance in the case of all other terminations (which amount is not included in the table), plus a payment equal to his then current annual base salary plus bonus, calculated at one hundred percent of his base salary. Mr. McCallister would also be entitled to continued coverage for himself and his dependents under our medical, accident and life insurance benefit plans for twelve months following termination upon the same terms and costs for similarly situated employees of the Company. In addition, any unvested restricted shares held by Mr. McCallister would become vested (with performance-based awards vesting at the target percentage in the case of termination by death or disability, and based on actual performance in the event of other terminations) and any unvested stock options held by Mr. McCallister would become fully vested (with performance-based stock options vesting at the target percentage) and would remain exercisable until the earlier of two years following the termination date or the expiration of the original term.

In the event that Mr. McCallister s employment is terminated by us without Good Cause or by Mr. McCallister for Good Reason under certain circumstances in anticipation of a Change in Control or within twenty-four months following a Change in Control, we would pay or provide to Mr. McCallister: (i) no later than thirty calendar days after the termination date (or such later date as may be required by Section 409A), his base salary earned but not yet paid at the greater of the rate in effect at the Change in Control or the termination date, which we refer to as the Higher Base Salary, (ii) at the same time bonuses are paid to other participants, a prorated annual bonus for the fiscal year in which termination occurs based on actual performance (which amount is not included in the table), (iii) a lump-sum payment equal to two and one-half times the amount equal to the sum of (a) the Higher Base Salary plus (b) the target annual bonus for the fiscal year in which termination occurs and (iv) continuation, at our expense, of all life, medical, dental, accidental death and dismemberment and disability insurance for Mr. McCallister and his dependents for two years following the termination date. In addition, to the extent that any restricted shares or stock options held by Mr. McCallister are unvested, such awards would become fully vested (with performance-based shares and awards vesting based on actual performance and with performance vested stock options vesting at the target percentage) and vested stock options would remain exercisable until the earlier of two years following the termination date or the expiration of the original term.

If Mr. McCallister s employment is terminated (i) by us for Good Cause, (ii) by Mr. McCallister s termination of the initial or any renewal term by reason of non-renewal, or (iii) by Mr. McCallister without Good Reason, we would pay to Mr. McCallister only his then current base salary accrued but unpaid through the termination date. In the event of a termination described in this paragraph, any restricted shares, unvested stock options or other equity-based award outstanding on the termination date would be forfeited.

Following Mr. McCallister s termination for any reason, he would be eligible for continuation of medical and dental insurance coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act (COBRA). For the first twelve months of COBRA continuation coverage, the cost to Mr. McCallister would be an amount equal to the normal employee contribution rate and, thereafter, the cost to Mr. McCallister would be the cost of COBRA continuation coverage. During the COBRA continuation period, Mr. McCallister may elect any of the health coverages available to our employees. Following the COBRA continuation period, Mr. McCallister may elect coverage for himself, his spouse and his dependents under any of the insured products offered the Company until the later of Mr. McCallister or his spouse, as applicable, turning 65 or becoming eligible for Medicare coverage.

Mr. McCallister is also entitled to a gross-up payment in the event he is subject to an excise tax pursuant to Section 4999 of the Code on parachute payments to which he is entitled to receive in connection with a Change in Control. The effect shall be to maintain Mr. McCallister in the same financial position that he would have been in had no tax under Section 4999 of the Code been imposed. Notwithstanding the above, in the event that a reduction to the payments to be made to Mr. McCallister of 10% or less, but not more than $200,000, would cause none of the payments to be excess parachute payments, Mr. McCallister would not be entitled to a gross-up payment and the payments would be reduced to the extent necessary so that none of the payments shall be excess parachute payments. In March 2009, the Committee determined that the Company will not enter into any new or materially amended agreements with executive officers that include excise tax gross-up provisions with respect to payments contingent upon a change in control. This determination will have no effect on the McCallister Employment Agreement unless that agreement is materially modified or amended.

Table of Contents

In the McCallister Employment Agreement, Good Cause is defined to mean:

(a) the commission by Mr. McCallister of an act of fraud, misappropriation, embezzlement, gross negligence, or willful misconduct or unethical conduct in connection with Mr. McCallister s employment under the McCallister Employment Agreement resulting in material economic or financial injury to the Company; or

(b) Mr. McCallister s intentional failure or refusal to perform reasonable assigned duties after written notice of such willful failure or refusal and the failure or refusal is not corrected within ten business days; or

(c) the indictment for, conviction of or entering a plea of guilty or nolo contendere to a crime constituting a felony (other than a traffic violation or other offense or violation outside of the course of employment which does not adversely affect the Company and its affiliates or their reputation or the ability of Mr. McCallister to perform his employment-related duties or to represent the Company); provided, however, that if Mr. McCallister is terminated for Good Cause by reason of his indictment pursuant to this clause (3) and the indictment is subsequently dismissed or withdrawn or Mr. McCallister is found to be not guilty in a court of law in connection with such indictment, then Mr. McCallister s termination shall be treated as a termination without Good Cause.

In the McCallister Employment Agreement, Good Reason is defined to mean:

(i) a material reduction in Mr. McCallister s title, authority or responsibilities, including reporting responsibilities; or

(ii) a reduction in Mr. McCallister s annual base salary; or

(iii) a relocation of Mr. McCallister s officer to a location more than thirty miles from the location at which Mr. McCallister performs his duties prior to such relocation; or

(iv) a failure by the Company to continue in effect any incentive, bonus or other material compensation plan in which Mr. McCallister participates, unless the Company substitutes a substantially equivalent benefit; or

(v) a breach by the Company of any material provision of the McCallister Employment Agreement.

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

(2) Severance Policy

Our executive officer severance policy, which we refer to as the Severance Policy, was adopted in 1999. The Severance Policy covers all of the Named Executive Officers, except for Mr. McCallister (whose payments as of December 31, 2009 were covered by the McCallister Employment Agreement described above). Under the Severance Policy, an executive officer involuntarily terminated for reasons not meeting the definition of Good Cause will receive one year s base salary plus one additional month s base salary for each of the first six full years of service up to a maximum of eighteen months base pay. In the case of Mr. Murray and Mr. Bloem, since each has at least six years of service with us, each would receive eighteen months of base pay. With respect to Mr. Kusserow and Mr. Madabhushi, since each has less than one year of service with us, each would receive one year s base salary. The terminated executive officer would remain eligible to receive prorated incentive compensation to be paid at the normal time after year end, provided plan targets and other plan provisions were met. Since the calculations in the table assume a December 31, 2009 termination, incentive compensation would be paid for the full year. This amount is not included in the table.

In connection with the receipt of any severance payments described above, the Named Executive Officer would be required to enter into a written agreement that would forbid him from competing with us for a period of twelve months. Such an agreement would also contain other provisions intended to prohibit the Named Executive Officer from making any disparaging remarks about us, and would also have clauses regarding cooperation and specific enforcement.

(3) Stock Option and Restricted Stock Agreements

At December 31, 2009, the Named Executive Officers have stock options and restricted stock outstanding under our 1996 and 2003 Stock Incentive Plans, which we refer to collectively as the Stock Plans. Under the Stock Plans, upon a voluntary termination for reasons not having to do with Cause or Retirement, in each case as defined below, each Named Executive Officer would have 90 days to exercise any vested options, but in no event beyond the expiration date. Any unvested shares of restricted stock would be forfeited upon a voluntary termination for reasons not having to do with Cause, as defined below; provided, however, that the Committee may determine, in its sole discretion, that the restrictions on some or all of such unvested shares of restricted stock shall immediately lapse upon such termination.

Under the Stock Plans, with respect to grants of options prior to January 1, 2010, in the event of Retirement, each Named Executive Officer would have two years to exercise any vested options, but in no event beyond the expiration date. Any unvested stock options would be forfeited. At December 31, 2009, the Named Executive Officers had vested

55

Table of Contents

options with a spread based on the December 31, 2009 fair market value of $44.18 as set forth in the table below. Under the Stock Plans, with respect to grants of restricted stock prior to January 1, 2010, in the event of Retirement, any unvested shares of restricted stock would be forfeited upon Retirement; provided, however, that the Committee may determine, in its sole discretion, that the restrictions on some or all of such unvested shares of restricted stock shall immediately lapse upon Retirement.

On June 25, 2009, the Committee approved certain amendments to the Company s benefit plans, including the Stock Plans, that modify the definition of eligible retirement under each of the Stock Plans to mean a combination of age and years of service with the Company totaling 65 or greater, with a minimum required age of 55 and a minimum requirement of five years of service. With respect to grants of options on or after January 1, 2010, in the event of an eligible Retirement by a Named Executive Officer, any outstanding options (x) that have vested as of the retirement date of that Named Executive Officer will be exercisable within two years of such retirement date, and (y) that have not vested as of the retirement date of that Named Executive Officer will continue to vest according to their original vesting schedule and will be exercisable within two years of the vesting date of such options. With respect to grants of restricted stock on or after January 1, 2010, in the event of an eligible Retirement by a Named Executive Officer, any unvested shares of restricted stock will continue to vest according to their original vesting schedule.

Under the Stock Plans, in the event of death or Disability of a Named Executive Officer, all outstanding options shall become immediately exercisable in full and the Named Executive Officer, or his estate or representative shall have two years to exercise the options regardless of the expiration date. At December 31, 2009, the Named Executive Officers had options with a spread based on the December 31, 2009 fair market value of $44.18 as set forth in the table below. Under the Stock Plans, in the event of death or Disability of a Named Executive Officer, any unvested shares of restricted stock shall immediately vest.

Under the Stock Plans, in the event of termination for Cause, all options and unvested shares of restricted stock are forfeited for all Named Executive Officers, including Mr. McCallister, regardless of whether the options are vested. Under the Stock Plans, Cause is defined as a felony conviction of a Participant or the failure of a Participant to contest prosecution for a felony, or a Participant s willful misconduct or dishonesty, any of which is determined by the Committee to be directly and materially harmful to the business or reputation of the Company or its Subsidiaries.

In the event of a Change in Control, all unvested shares of restricted stock shall immediately vest, and all options shall become immediately exercisable in full. If a Named Executive Officer is terminated (except for Cause) within three years of the Change in Control, the Named Executive Officer shall have two years to exercise these options, but in no event beyond the expiration date. See the amounts as set forth in the table under Change in Control.

Alternatively, a Named Executive Officer would be permitted to surrender for cancellation within 60 days after a Change in Control, any unexercised option or a portion of an unexercised option and would be entitled to receive a payment in an amount equal to the difference between the greater of the Fair Market Value on the date of surrender or the Adjusted Fair Market Value, and the option exercise price, times the number of shares under option so surrendered. The Adjusted Fair Market Value means, in the event of a Change in Control, the greater of (a) the highest price per share paid to stockholders in the transaction resulting in the Change in Control, or (b) the highest Fair Market Value of a share of our common stock during the 90 day period ending on the date of a Change in Control. The highest price of our common stock in the 90 day period preceding December 31, 2009 was $45.705. The table set forth below presents the incremental value assuming that each Named Executive Officer surrenders all outstanding options at December 31, 2009, for the Adjusted Fair Market Value.

Named Executive Officer	Value of all Vested Options at December 31, 2009	Value of all Unvested Options at December 31, 2009	Incremental Value due to Adjusted Fair Market Value	Total
Michael B. McCallister	$ 2,870,000	$ 530,534	$ 725,532	$ 4,126,066
James H. Bloem	$ 306,126	$ 159,161	$ 143,951	$ 609,238
James E. Murray	$ 1,740,715	$ 234,951	$ 341,089	$ 2,316,755
Paul B. Kusserow	$ 0	$ 967,500	$ 228,750	$ 1,196,250
V. Rajamannar Madabhushi	$ 0	$ 1,465,000	$ 152,500	$ 1,617,500

Table of Contents

(4) Change in Control Benefits

We have entered into agreements with all executive officers, including Mr. Bloem, Mr. Murray, Mr. Kusserow, and Mr. Madabhushi, as well as certain key management employees, which for a two-year period following a Change in Control of the Company, as defined in the agreements, provide certain benefits upon termination. Such termination may be involuntary or may 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 target incentive compensation payable to him or her, by a specified multiple. Mr. Bloem, Mr. Murray, Mr. Kusserow, and Mr. Madabhushi, would each receive a payment in the amount of one and one-half times the sum of their base salary and maximum target bonus, in the event of a Change in Control. Assuming a Change in Control had occurred at December 31, 2009, the payments set forth in the table above would have been made within ten days of the termination event, (or such later date as may be required by Section 409A) by the surviving company in the Change in Control.

In addition, in the event of a Change in Control generally all outstanding options and restricted stock would immediately vest. See the discussion herein under Note 3 Stock Option and Restricted Stock Agreements.

Under the Change in Control agreements, each Named Executive Officer is entitled to receive all life insurance, health insurance, dental insurance, accidental death and dismemberment insurance and disability insurance under plans and programs in which the Named Executive Officer and/or the Named Executive Officer s dependents and beneficiaries participated immediately prior to the date of termination. These benefits shall continue until the earlier of (a) the second anniversary of the date of termination, (b) the effective date of coverage under equivalent benefits from a new employer, or (c) the death of the Named Executive Officer. These benefits are valued at the amounts listed in the table above for the two year period.

(5) Pension and Retirement Plans

In the event of termination, each Named Executive Officer would receive his account balance under the Supplemental Executive Retirement & Savings Plan disclosed in the Nonqualified Deferred Compensation table together with his Humana Retirement & Savings Plan benefit. The Humana Retirement & Savings Plan is a qualified combined retirement and 401(k) plan generally available to all Humana associates. The amounts below include both the individual s contribution and the Company s contributions. At December 31, 2009, the account balances under the Humana Retirement & Savings Plan for the Named Executive Officers are as follows (which amounts are not included in the table):

Michael B. McCallister	$ 2,138,878
James H. Bloem	$ 397,469
James E. Murray	$ 1,132,720
Paul B. Kusserow	$ 19,754
V. Rajamannar Madabhushi	$ 0

The Humana Retirement & Savings Plan amounts are payable under various forms of distribution, the specific form to be elected by the participant. The forms of distribution are a single lump sum in cash or our common stock (if invested in the Humana common stock fund); substantially equal monthly, quarterly, or annual installments for a period of 5, 10, 15 or 20 years not to exceed the life expectancy of the participant, or the joint and last survivor expectancy of the participant and a designated beneficiary; a life annuity paid monthly or quarterly; or a life annuity paid monthly or quarterly with guaranteed payments for a period of 5, 10, 15 or 20 years.

(6) ***Life, Health and Other Benefits***

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 until the earlier of attainment of age 65 or obtaining other coverage. In the table above, a one year expense is listed, except for a Change in Control where the amount covers a two year period. In the event of death, the estate of each Named Executive Officer is entitled to receive a benefit in the amount of three times the current base salary of the officer. As of December 31, 2009, the amount payable under such death benefit, which is not included in the table above, is as follows for our Named Executive Officers:

Michael B. McCallister	$ 3,075,000
James H. Bloem	$ 1,635,000
James E. Murray	$ 2,010,000
Paul B. Kusserow	$ 1,395,000
V. Rajamannar Madabhushi	$ 1,500,000

Table of Contents

(7) ***Tax Gross Up Payments***

At December 31, 2009, Mr. McCallister was the only Named Executive Officer having an arrangement in place with us that provides for a tax gross up payment, and even then only in the context of a Change in Control. In the event of a Change in Control, the effect of this gross-up would be to maintain Mr. McCallister in the same financial position that he would have been in had no tax under Section 4999 of the Internal Revenue Code been imposed. Notwithstanding the above, in the event that a reduction of Mr. McCallister s Change in Control payments by 10% or less, but not more than $200,000, would cause none of the payments to be considered excess parachute payments, Mr. McCallister would not be entitled to a gross-up payment and the payments would be reduced to the extent necessary so that none of the payments would be considered excess parachute payments. At December 31, 2009, there would be no tax gross-up payment due Mr. McCallister because the amount paid to him upon a Change in Control would not exceed the triggering threshold under Section 280G of the Internal Revenue Code. In March 2009, the Organization & Compensation Committee of the Board of Directors determined that the Company will not enter into any new or materially amended agreements with executive officers that include excise tax gross-up provisions with respect to payments contingent upon a change in control. This determination will have no effect on the McCallister Employment Agreement unless that agreement is materially modified or amended.

Table of Contents

CERTAIN TRANSACTIONS WITH MANAGEMENT AND OTHERS

The Board of Directors has determined that there are no material transactions involving an executive officer or director nominee of the Company, other than described below. For a discussion of the transactions reviewed, please see the discussion under Independent Directors herein.

The Board of Directors has adopted a policy for review, approval and monitoring of transactions involving the Company and directors and executive officers or their immediate family members, or stockholders owning five percent or greater of the Company s outstanding stock. The policy covers any related person transaction that meets the minimum threshold for disclosure under the SEC s regulations. The Related Party Transaction Approval Policy may be viewed on our web site. From the www.humana.com web page, click on Investor Relations, then click on View Website, then click on Corporate Governance on the right side of the page, and then click on the link entitled Related Persons Transactions Policy on the left side of the page.

A brother-in-law of Mr. Murray is employed as a Director, Service Operations in the Accounts Installation Department. This individual received a salary and incentive of approximately $190,000 for 2009, and received benefits consistent with those provided to other employees with equivalent qualifications and responsibilities.

The Company has entered into an agreement with BlackRock, Inc., or BlackRock, which holds greater than five percent of the Company s outstanding stock as of December 31, 2009 as a result of its previously announced acquisition of Barclays Global Investors, NA and certain of its affiliates that collectively owned shares of Company stock. Under this agreement, BlackRock provides investment management services to the Company, for which the Company paid approximately $2,500,000 in fees for the year ended December 31, 2009.

Table of Contents

EQUITY COMPENSATION PLAN INFORMATION

We maintain plans under which options to purchase our common stock and under which awards of restricted stock may be made to officers, directors, key employees and consultants. Options are granted at the average market price on the date of grant. Exercise provisions vary, but most options vest in whole or in part from one to three years from date of grant and expire seven to ten years after date of grant.

Information concerning stock option awards, and number of securities remaining available for future issuance under our equity compensation plans in effect as of December 31, 2009 follows:

Column	**(a)**	**(b)**	**(c)**
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders(2)	6,037,322	$46.2119	4,797,304(1)
Equity compensation plans not approved by security holders(3)	20,999	$12.9546	0
Total	6,058,321	$46.0966	4,797,304

(1) Of the number listed above, 2,821,944 can be issued as Restricted Stock at December 31, 2009 (giving effect to the provision that one restricted share is equivalent to 1.7 stock options). Through February 26, 2010, 975,513 stock options and restricted stock unit awards were granted. After cancellations and giving affect to the provision that one restricted share is equivalent to 1.7 stock options, 3,463,240 shares remain available for future awards of stock options or 2,037,200 shares remain available for future awards of restricted stock under the 2003 Stock Incentive Plan.

(2) The above table does not include awards of Shares of Restricted Stock or Restricted Stock Units. For information concerning these awards, see Footnote 13 Employee Benefit Plans in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

(3) The material features of our only equity compensation plan that was not approved by our stockholders, the Humana Inc. Stock Option Plan for Employees, which we refer to as the 1999 Plan, are described below.

Non-Qualified Stock Option Plan for Employees

On September 9, 1999, the Board of Directors adopted the 1999 Plan. The Board of Directors determined that no further awards would be made under the 1999 Plan as of December 31, 2002.

The 1999 Plan authorized the grant of non-qualified stock options to eligible employees of the Company or its subsidiaries. Executive officers and directors were not eligible to participate in the 1999 Plan.

The 1999 Plan was intended to provide incentives and rewards for employees (i) to support the implementation of our business and human resource strategies and the achievement of our goals, and (ii) to align the interests of employees with those of our stockholders.

The 1999 Plan is administered by the Organization & Compensation Committee of our Board of Directors.

The maximum number of Shares of common stock that could be awarded under the 1999 Plan was 1,700,000. The maximum number of shares that could be awarded to any individual was 15% of the Shares of common stock authorized under the 1999 Plan.

Only non-qualified stock options could be granted under the 1999 Plan.

Generally, in the event of a Change in Control of the Company, as defined in the 1999 Plan, all outstanding stock options become fully vested and immediately exercisable in their entirety.

For federal income tax purposes, no income is recognized by a participant upon the grant of a non-qualified stock option under the 1999 Plan. Upon the exercise of an option, however, compensation taxable as ordinary income is realized by the participant in an amount equal to the excess of the fair market value of a share of the common stock on the date of such exercise over the exercise price. The taxable income resulting from the exercise of an option granted to an employee constitutes wages subject to the withholding of income taxes. Accordingly, we are required to make whatever arrangements are necessary to collect the amount of tax required to be withheld. The employee s income as reported on the Form W-2 will include the stock option exercise.

Table of Contents

AUDIT COMMITTEE REPORT

Our Audit Committee currently is comprised of five directors. All members are independent and are financially literate as defined in the New York Stock Exchange listing standards. The Board of Directors has determined that Mr. D Amelio, Mr. O Brien, Mr. Mitchell and Dr. Reynolds, each meet the definition of audit committee financial expert. The Board of Directors has adopted a written charter for the Committee.

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, 2009 with Humana s management and its independent registered public accounting firm, PricewaterhouseCoopers LLP, or PwC. Management is responsible for the financial statements and the reporting process, including its assessment of our internal control over financial reporting. 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 our 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 applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the audit committee concerning independence.

During 2009, the Audit Committee met independently with the Director of Internal Audit, key members of management, and PwC regarding our business and current and planned audit activities. The Audit Committee, in consultation with management, Internal Audit, and PwC reviewed our quarterly financial statements and earnings releases. The Audit Committee reviewed our annual financial statements. Audit Committee members individually reviewed our monthly operating and financial information as well as internal audits of controls over operations, financial processes, and compliance with laws and regulations.

The Audit Committee reviewed and evaluated the relevant requirements of the Sarbanes-Oxley Act of 2002, the rules of the U.S. Securities and Exchange Commission and the listing standards of the New York Stock Exchange regarding audit committee procedures and responsibilities, including a review of our internal controls and procedures.

The Audit Committee reviewed and approved the services provided by PwC to us consisting of the following:

	For The Years Ended December 31	
	2009	**2008**
Audit Fees	$ 4,698,000	$ 4,981,500
Audit Related Fees	958,500	942,500
Tax Services	140,000	166,670
All Other Fees	37,500	54,500
TOTAL	$ 5,834,000	$ 6,145,170

Audit Fees include activities relating to the attestation of our consolidated financial statements, the audit of internal control over financial reporting, statutory and other separate company audits, state department of insurance examinations and consultations related to miscellaneous SEC and financial reporting matters.

Audit-Related Fees include activities for employee benefit plan audits, reports issued pursuant to Statement on Auditing Standards No. 70, *Service Organizations*, and mandated regulatory and compliance reviews. No amounts were paid for financial systems design and implementation.

Tax Services include activities relating to tax compliance work and tax consultation.

All Other Fees include consultation related to operational processes, compensation surveys and annual renewal of software licenses for accounting research software.

The Audit Committee discussed with our 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 PwC s continued independence. The Audit Committee annually pre-approves the following permissible non-audit services:

- related assurance and attestation services;
- risk and control services;
- transaction services; and
- tax services.

The fees shown in the table above were all pre-approved in accordance with these policies and procedures. The Audit Committee separately will consider any proposed retention of the independent registered public accounting firm 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, 2009.

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

AUDIT COMMITTEE

Frank A. D Amelio, Chairman

William E. Mitchell

David B. Nash, M.D.

James J. O Brien

W. Ann Reynolds, Ph.D.

Table of Contents

PROPOSAL TWO: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors, in accordance with the recommendation of its Audit Committee, has appointed PricewaterhouseCoopers LLP (PwC) as the independent registered public accounting firm to audit the consolidated financial statements of the Company for the year ending December 31, 2010. In making this appointment, the Board considered the performance and independence of PwC, including whether any non-audit services performed by PwC are compatible with maintaining independence. The Audit Committee and Board of Directors believe that PwC has invaluable long-term knowledge of Humana. While preserving that knowledge, partners and employees of PwC engaged in audits of Humana are periodically changed, giving Humana access to new expertise, experience and perspectives. This year, we are asking our stockholders to ratify the appointment of PwC as our independent registered public accounting firm. Although ratification is not required by our Charter, Bylaws, Delaware law or otherwise, the Board is submitting the appointment of PwC to our stockholders for ratification because we value our stockholders views on our independent registered public accounting firm. If our stockholders fail to ratify the appointment, it will be considered as a non-binding recommendation to the Board and the Audit Committee to consider the appointment of a different firm for fiscal year 2011. Even if the appointment is ratified, the Board and the Audit Committee may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders. Representatives of PwC will be present at the Annual Meeting and will be afforded the opportunity to make a statement if they desire to do so and to respond to appropriate questions.

Vote Required and Recommendation of Board of Directors. The affirmative vote of a majority of the votes cast on the proposal is required for the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm. Shares not present at the meeting and shares voting abstain or broker non-votes have no effect on the ratification of the appointment of PricewaterhouseCoopers LLP. Pursuant to NYSE regulations, brokers have discretionary voting power over the ratification of the appointment of the Company s independent registered public accounting firm.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Table of Contents

INCORPORATION BY REFERENCE

The Organization & Compensation Committee Report and the Audit Committee Report (including the reference to the independence and financial expertise of the Audit Committee members), each contained in this Proxy Statement, are not deemed filed with the SEC and shall not be deemed incorporated by reference into any prior or future filings made by Humana under the Securities Act, except to the extent that we specifically incorporate such information by reference into any of these future filings.

ADDITIONAL INFORMATION

Our Annual Report on Form 10-K for the year ended December 31, 2009, excluding certain of its exhibits, is included with the transmittal of this Proxy Statement. We will provide a copy without charge to anyone who makes a written request to Humana Inc., Investor Relations Department, 500 West Main Street, Louisville, KY 40202. Our Annual Report on Form 10-K and all other filings with the SEC may also be accessed via the Investor Relations page on our web site at www.humana.com. From the www.humana.com web page, click on Investor Relations, then click on View Website, and then click on the report you wish to review under the SEC & Financial Reports subcategory.

By Order of the Board of Directors,

Joan O. Lenahan,

Vice President and Corporate Secretary

Table of Contents

YOUR VOTE IS IMPORTANT

VOTE BY TELEPHONE OR INTERNET OR MAIL

500 W. MAIN STREET

ATTN: JOAN LENAHAN

27TH FLOOR

LOUISVILLE, KY 40202

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery

of information up until 11:59 P.M. Eastern Time on April 19, 2010. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by Humana Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 19, 2010. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Humana Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. PLEASE DO NOT MAIL BACK YOUR PROXY CARD IF YOU ARE VOTING BY TELEPHONE OR THE INTERNET.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M19425-P89718 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

HUMANA INC.

The Board of Directors recommends a vote **FOR** the following proposals.

Vote on Directors

1. The Election of Directors.

Nominees:	**For**	**Against**	**Abstain**
1a) David A. Jones, Jr.	¨	¨	¨
1b) Frank A. D Amelio	¨	¨	¨
1c) W. Roy Dunbar	¨	¨	¨
1d) Kurt J. Hilzinger	¨	¨	¨
1e) Michael B. McCallister	¨	¨	¨
1f) William J. McDonald	¨	¨	¨
1g) William E. Mitchell	¨	¨	¨
1h) David B. Nash, M.D.	¨	¨	¨
1i) James J. O Brien	¨	¨	¨
1j) Marissa T. Peterson	¨	¨	¨
1k) W. Ann Reynolds, Ph.D.	¨	¨	¨

Vote on Accounting Firm

	For	**Against**	**Abstain**
2. The ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm.	¨	¨	¨

At their discretion, the Proxies are authorized to vote upon any other matters as may come before the Annual Meeting.

Signatures of stockholders should correspond exactly with the names shown on this proxy card. Attorneys, trustees, executors, administrators, guardians and others signing in a representative capacity should designate their full titles. When Shares of Company Common Stock are held by joint tenants, both should sign. If a corporation, please sign in full corporate name by authorized officer. If a partnership, please sign in partnership name by an authorized person.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

Table of Contents

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

M19426-P89718

HUMANA INC.

ANNUAL MEETING OF STOCKHOLDERS

THURSDAY, APRIL 20, 2010

10:00 A.M., EDT

HUMANA BUILDING

25th FLOOR AUDITORIUM

500 WEST MAIN STREET

LOUISVILLE, KENTUCKY 40202

PROXY SOLICITED BY THE BOARD OF DIRECTORS

FOR 2010 ANNUAL MEETING OF STOCKHOLDERS

The undersigned hereby appoints David A. Jones, Jr. and Michael B. McCallister, and each of them, their attorneys and agents, with full power of substitution to vote as Proxy for the undersigned, as herein stated, at the Annual Meeting of Stockholders of Humana Inc. (the Annual Meeting) to be held in the Auditorium on the 25th Floor of the Humana Building, 500 West Main Street, Louisville, Kentucky on Tuesday, the 20th day of April, 2010 at 10:00 a.m., EDT, and at any postponements or adjournments thereof, according to the number of votes the undersigned would be entitled to vote on the proposals as set forth on the reverse side if personally present.

THE SHARES OF COMMON STOCK COVERED BY THIS PROXY WILL BE VOTED AS SPECIFIED. IF NO SPECIFICATION IS MADE, THE PROXY WILL BE VOTED IN FAVOR OF THE ELECTION OF DIRECTORS AND FOR THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP.

The undersigned hereby revokes any proxy heretofore given to vote or act with respect to the Annual Meeting.

(SEE REVERSE SIDE TO VOTE)