

HUMANA INC
Form 425
August 10, 2015

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Subject Company: Humana Inc.

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Date: August 10, 2015

The following memorandum was provided to certain employees of Humana Inc. on August 10, 2015:

August 10, 2015

To: Employees who have current unvested equity

As a healthcare company, focused on the health and well-being of our consumers, we operate in an ever-changing environment. Faced with new industry and market dynamics, the anticipated merger with Aetna is exciting for our associates and consumers and enables us to move confidently into the future as a stronger organization. The new organization will offer more product choices, additional ease of healthcare access and increased affordability to help our consumers achieve their best health.

Our talented and experienced workforce is one of the many reasons we have experienced such success as an organization. During this transition period, Humana is committed to retaining critical talent to ensure that we deliver a strong, intact organization that helps move the new company forward.

As a valuable contributor to our business success, we want to help you understand the impact that the merger agreement will have on your equity compensation. We have created the attached FAQs to provide you with a general overview of how your equity awards will be treated per the merger agreement with Aetna and the terms of these awards.

Each equity situation is unique, and we encourage you to contact Schwab or your personal tax advisor if you have specific questions about your situation. You can access Schwab [here](#). If you have additional questions related to accessing your Schwab account, please reach out to the [Equity Compliance Department](#).

For general questions about the information provided below, please reach out to the below contacts:

Corporate Coleen Nettesheim, Tim Duke or Devann Steele

HCS: Jaime Turner or Jenny O'Donnell

Retail and Group Sales: May Beth Warner or Amber Coyle

What you do every day for our members, partners and our associates makes a difference and is greatly appreciated by our customers and Humana leadership. Keep up the outstanding work, and thank you for all you do for Humana.

Frequently Asked Questions

How will unvested equity be treated when the merger closes?

Except for awards that do not vest by their terms, most awards granted prior to July 3, 2015 will automatically vest on the date of closing. More specifically:

RSU/PSU (Restricted Stock Units/Performance Stock Units) awards: For each Humana share you will receive \$125 in cash and 0.8375 of an Aetna share (less applicable withholding). As of July 2, 2015, the value of the per share merger consideration (based on the closing price of a share of Aetna common stock on that date) was \$230.11 per Humana share. **The exchange ratio will not change between now and the closing date, and we therefore cannot predict the value of Aetna common stock, and therefore the value of the per share merger consideration on that date.**

Accrued but unpaid dividend equivalent rights will be paid in cash (less applicable withholding). A dividend equivalent right entitles the recipient to receive credits equal to the cash or stock dividends or other distributions that would have been received on shares of stock had the shares been issued and outstanding on the dividend record date.

PSU s granted in 2014 and 2015 will vest at maximum level.

Information provided in your Schwab account reflects the accurate amount of units based on maximum level.

Stock options: Each such stock option will be cancelled and converted into the right to receive an amount in cash equal to the product of (A) the excess of (i) the cash value of the merger consideration (determined by adding \$125 to the average value of 0.8375 of an Aetna share for the five day period ending two days prior to the date of closing) over (ii) the applicable per share exercise price multiplied by (B) the number of Humana shares subject to the stock option (less applicable withholding).

Equity Conversion Examples:

Restricted Stock Units (RSUs), Performance Stock Units (PSUs): *(illustrative Aetna share price at close will be used for actual calculation)*

of RSU/PSUs: 100

Dividend Equivalent Rights (DERs): \$400

RSU/PSUs Granted prior to July 2, 2015

A RSU/PSU award granted on or prior to July 2, 2015 will be converted into the right to receive merger consideration (the conversion of equity as noted above, less applicable withholding). Based on the assumptions set forth above, the holder would be entitled to receive:

Cash Portion (less withholding): $100 * \$125 + \$400 + \$86.25$ (fractional share determined by multiplying the fractional share by the Aetna Share Price as set forth below*) = **\$12,986.25**

Aetna Stock (less withholding to the extent not satisfied by cash withholding): $100 * .8375 = 83.75$
shares of Aetna common stock (with .75 share of Aetna common stock settled in cash based on the price per share of Aetna common stock for a five-day period ending two days prior to the closing.)

Will there be a vesting period for the stock portion of the merger consideration?

No, there is not a vesting period for the stock portion of the merger consideration. The Aetna shares you receive will be fully vested.

What happens if the Aetna stock price changes between now and the closing date?

The exchange ratio will not change between now and the closing date, and we therefore cannot predict the value of Aetna's common stock, and therefore the value of the stock portion of the per share merger consideration (noted above) on the closing date.

Will Humana issue equity awards in February 2016?

As has been the historical process, issuance of equity awards is contingent upon the Humana Board of Directors' review and approval, subject to certain limitations set forth in the merger agreement.

* Aetna share price for calculation example: \$115. Actual share price for final calculation will be determined at the time of close.

Important Information for Investors and Stockholders

These materials do not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. In connection with the proposed transaction between Aetna Inc. ("Aetna") and Humana Inc. ("Humana"), Aetna and Humana will file relevant materials with the Securities and Exchange Commission (the "SEC"), including an Aetna registration statement on Form S-4 that will include a joint proxy statement of Aetna and Humana that also constitutes a prospectus of Aetna, and a definitive joint proxy statement/prospectus will be mailed to stockholders of Aetna and Humana. INVESTORS AND SECURITY HOLDERS OF AETNA AND HUMANA ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER DOCUMENTS THAT WILL BE FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders will be able to obtain free copies of the registration statement and the joint proxy statement/prospectus (when available) and other documents filed with the SEC by Aetna or Humana through the website maintained by the SEC at <http://www.sec.gov>. Copies of the documents filed with the SEC by Aetna will be available free of charge on Aetna's internet website at <http://www.Aetna.com> or by contacting Aetna's Investor Relations Department at 860-273-8204. Copies of the documents filed with the SEC by Humana will be available free of charge on Humana's internet website at <http://www.Humana.com> or by contacting Humana's Investor Relations Department at 502-580-3644.

Aetna, Humana, their respective directors and certain of their respective executive officers may be considered participants in the solicitation of proxies in connection with the proposed transaction. Information about the directors and executive officers of Humana is set forth in its Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 18, 2015, its proxy statement for its 2015 annual meeting of stockholders, which was filed with the SEC on March 6, 2015, and its Current Report on Form 8-K, which was filed with the SEC on April 17, 2015. Information about the directors and executive officers of Aetna is set forth in its Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 27, 2015, its proxy statement for its 2015 annual meeting of shareholders, which was filed with the SEC on April 3, 2015 and its Current Reports on Form 8-K, which were filed with the SEC on May 19, 2015 and May 26, 2015. Other information regarding the participants in the proxy solicitations and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the joint proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available.

Cautionary Statement Regarding Forward-Looking Statements

These materials contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can generally identify forward-looking statements by the use of forward-looking terminology such as anticipate, believe, continue, could, estimate, expect, explore, evaluate, intend, may, might, plan, potential, predict, project, seek, negative thereof or other variations thereon or comparable terminology. These forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond Aetna's and Humana's control.

Statements in these materials regarding Aetna and Humana that are forward-looking, including projections as to the anticipated benefits of the pending transaction, increased membership as a result of the pending transaction, the impact of the pending transaction on Aetna's and Humana's businesses and share of revenues from government business, the impact of the transaction on Aetna's and Humana's operating earnings per share, earnings before interest, taxes,

depreciation and amortization (EBITDA), revenues and parent cash flows, the synergies from the pending transaction, and the closing date for the pending transaction, are based on management's estimates, assumptions and projections, and are subject to significant uncertainties and other factors, many of which are beyond Aetna's and Humana's control. In particular, projected financial information for the combined businesses of Aetna and Humana is based on management's estimates, assumptions and projections and has not been prepared in conformance with the applicable accounting requirements of Regulation S-X relating to pro forma financial information, and the required pro forma adjustments have not been applied and are not reflected therein. None of this information should be considered in isolation from, or as a substitute for, the historical financial statements of Aetna or Humana. Important risk factors could cause actual future results and other future events to differ materially from those currently estimated by management, including, but not limited to: the timing to consummate the proposed acquisition; the risk that a condition to closing of the proposed acquisition may not be satisfied; the risk that a regulatory approval that may be required for the proposed acquisition is delayed, is not obtained or is obtained subject to conditions that are not anticipated; Aetna's and Humana's ability to achieve the synergies and value creation contemplated by the proposed acquisition; Aetna's ability to promptly and effectively integrate Humana's businesses; the diversion of management time on acquisition-related issues; unanticipated increases in medical costs (including increased intensity or medical utilization as a result of flu or otherwise; changes in membership mix to higher cost or lower-premium products or membership-adverse selection; medical cost increases resulting from unfavorable changes in contracting or re-contracting with providers (including as a result of provider consolidation and/or integration); and increased pharmacy costs (including in Aetna's and Humana's health insurance exchange products)); the profitability of Aetna's and Humana's public health insurance exchange products, where membership is higher than Aetna or Humana projected and may have more adverse health status and/or higher medical benefit utilization than Aetna or Humana projected; uncertainty related to Aetna's and Humana's accruals for health care reform's reinsurance, risk adjustment and risk corridor programs (3Rs); the implementation of health care reform legislation, including collection of health care reform fees, assessments and taxes through increased premiums; adverse legislative, regulatory and/or judicial changes to or interpretations of existing health care reform legislation and/or regulations (including those relating to minimum MLR rebates); the implementation of health insurance exchanges; Aetna's and Humana's ability to offset Medicare Advantage and PDP rate pressures; and changes in Aetna's and Humana's future cash requirements, capital requirements, results of operations, financial condition and/or cash flows. Health care reform will continue to significantly impact Aetna's and Humana's business operations and financial results, including Aetna's and Humana's pricing and medical benefit ratios. Key components of the legislation will continue to be phased in through 2018, and Aetna and Humana will be required to dedicate material resources and incur material expenses during 2015 to implement health care reform. Certain significant parts of the legislation, including aspects of public health insurance exchanges, Medicaid expansion, reinsurance, risk corridor and risk adjustment and the implementation of Medicare Advantage and Part D minimum medical loss ratios (MLRs), require further guidance and clarification at the federal level and/or in the form of regulations and actions by state legislatures to implement the law. In addition, pending efforts in the U.S. Congress to amend or restrict funding for various aspects of health care reform, and litigation challenging aspects of the law continue to create additional uncertainty about the ultimate impact of health care reform. As a result, many of the impacts of health care reform will not be known for the next several years. Other important risk factors include: adverse changes in health care reform and/or other federal or state government policies or regulations as a result of health care reform or otherwise (including legislative, judicial or regulatory measures that would affect Aetna's or Humana's business model, restrict funding for or amend various aspects of health care reform, limit Aetna's or Humana's ability to price for the risk it assumes and/or reflect reasonable costs or profits in its pricing, such as mandated minimum medical benefit ratios, or eliminate or reduce ERISA pre-emption of state laws (increasing Aetna's or Humana's potential litigation exposure)); adverse and less

predictable economic conditions in the U.S. and abroad (including unanticipated levels of, or increases in the rate of, unemployment); reputational or financial issues arising from Aetna's and Humana's social media activities, data security breaches, other cybersecurity risks or other causes; Aetna's and Humana's ability to diversify Aetna's and Humana's sources of revenue and earnings, transform Aetna's and Humana's business model, develop new products and optimize Aetna's and Humana's business platforms; adverse changes in size, product or geographic mix or medical cost experience of membership; managing executive succession and key talent retention, recruitment and development; failure to achieve and/or delays in achieving desired rate increases and/or profitable membership growth due to regulatory review or other regulatory restrictions, the difficult economy and/or significant competition, especially in key geographic areas where membership is concentrated, including successful protests of business awarded to Aetna or Humana; failure to adequately implement health care reform; the outcome of various litigation and regulatory matters, including audits, challenges to Aetna's and Humana's minimum MLR rebate methodology and/or reports, guaranty fund assessments, intellectual property litigation and litigation concerning, and ongoing reviews by various regulatory authorities of, certain of Aetna's and Humana's payment practices with respect to out-of-network providers and/or life insurance policies; Aetna's and Humana's ability to integrate, simplify, and enhance Aetna's and Humana's existing products, processes and information technology systems and platforms to keep pace with changing customer and regulatory needs; Aetna's ability to successfully integrate Aetna's businesses (including Humana, Coventry, bswift LLC and other businesses Aetna may acquire in the future) and implement multiple strategic and operational initiatives simultaneously; Aetna's and Humana's ability to manage health care and other benefit costs; adverse program, pricing, funding or audit actions by federal or state government payors, including as a result of sequestration and/or curtailment or elimination of the Centers for Medicare & Medicaid Services' star rating bonus payments; Aetna's and Humana's ability to reduce administrative expenses while maintaining targeted levels of service and operating performance; failure by a service provider to meet its obligations to us; Aetna's and Humana's ability to develop and maintain relationships (including collaborative risk-sharing agreements) with providers while taking actions to reduce medical costs and/or expand the services Aetna and Humana offers; Aetna's and Humana's ability to demonstrate that Aetna's and Humana's products and processes lead to access to quality affordable care by Aetna's and Humana's members; Aetna's and Humana's ability to maintain Aetna's and Humana's relationships with third-party brokers, consultants and agents who sell Aetna's and Humana's products; increases in medical costs or Group Insurance claims resulting from any epidemics, acts of terrorism or other extreme events; changes in medical cost estimates due to the necessary extensive judgment that is used in the medical cost estimation process, the considerable variability inherent in such estimates, and the sensitivity of such estimates to changes in medical claims payment patterns and changes in medical cost trends; a downgrade in Aetna's or Humana's financial ratings; and adverse impacts from any failure to raise the U.S. Federal government's debt ceiling or any sustained U.S. Federal government shut down. For more discussion of important risk factors that may materially affect Aetna, please see the risk factors contained in Aetna's 2014 Annual Report on Form 10-K (Aetna's 2014 Annual Report) on file with the Securities and Exchange Commission (SEC). You should also read Aetna's 2014 Annual Report and Aetna's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, on file with the SEC, for a discussion of Aetna's historical results of operations and financial condition. For more discussion of important risk factors that may materially affect Humana, please see the risk factors contained in Humana's 2014 Annual Report on Form 10-K (Humana 2014 Annual Report) on file with the SEC. You should also read Humana's 2014 Annual Report and Humana's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, on file with the SEC, for a discussion of Humana's historical results of operations and financial condition.

No assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do occur, what impact they will have on the results of operations, financial condition or cash flows of Aetna or Humana. Neither Aetna nor Humana assumes any duty to update or revise forward-looking statements, whether as a result of new information, future events or otherwise, as of any future date.

