WELLPOINT, INC
Form 10-Q
July 25, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PUSUANT 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: 001-16751

WELLPOINT, INC.

(Exact name of registrant as specified in its charter)

INDIANA	**35-2145715**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
120 MONUMENT CIRCLE	
INDIANAPOLIS, INDIANA	**46204-4903**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (317) 488-6000

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 at least 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by 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 latest practicable date:

Title of Each Class	**Outstanding at July 12, 2012**
Common Stock, $0.01 par value	325,186,630 shares

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WellPoint, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WellPoint, Inc.

Consolidated Balance Sheets

(In millions, except share data)	**June 30, 2012** (Unaudited)	**December 31, 2011**
Assets		
Current assets:		
Cash and cash equivalents	$ 1,953.1	$ 2,201.6
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $16,444.1 and $15,233.6)	17,206.1	15,913.1
Equity securities (cost of $847.2 and $937.7)	1,139.4	1,188.1
Other invested assets, current	16.0	14.8
Accrued investment income	164.9	172.0
Premium and self-funded receivables	3,890.7	3,402.9
Other receivables	935.5	943.9
Income taxes receivable	137.4	105.8
Securities lending collateral	765.9	871.4
Deferred tax assets, net	347.5	424.8
Other current assets	1,913.6	1,859.0
Total current assets	28,470.1	27,097.4
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $241.6 and $240.8)	247.1	246.8
Equity securities (cost of $26.8 and $28.4)	29.1	28.8
Other invested assets, long-term	1,191.2	1,103.3
Property and equipment, net	1,478.4	1,418.1
Goodwill	14,534.3	13,858.7
Other intangible assets	8,126.2	7,931.7
Other noncurrent assets	458.6	433.6
Total assets	$ 54,535.0	$ 52,118.4
Liabilities and shareholders equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$ 5,415.9	$ 5,489.0
Reserves for future policy benefits	61.8	55.1
Other policyholder liabilities	2,277.3	2,278.2
Total policy liabilities	7,755.0	7,822.3
Unearned income	1,707.8	926.5
Accounts payable and accrued expenses	2,788.5	3,124.1
Security trades pending payable	188.1	51.7
Securities lending payable	766.4	872.5
Short-term borrowings	200.0	100.0
Current portion of long-term debt	813.7	1,274.5
Other current liabilities	1,958.3	1,727.1
Total current liabilities	16,177.8	15,898.7
Long-term debt, less current portion	10,135.6	8,420.9
Reserves for future policy benefits, noncurrent	696.1	730.7
Deferred tax liabilities, net	2,868.4	2,724.0
Other noncurrent liabilities	1,013.3	1,055.9

Total liabilities	30,891.2	28,830.2
Commitment and contingencies - Note 10		
Shareholders equity		
Preferred stock, without par value, shares authorized 100,000,000; shares issued and outstanding none		
Common stock, par value $0.01, shares authorized 900,000,000; shares issued and outstanding: 325,159,845 and 339,372,680	3.2	3.4
Additional paid-in capital	11,204.4	11,679.2
Retained earnings	12,224.0	11,490.7
Accumulated other comprehensive income	212.2	114.9
Total shareholders equity	23,643.8	23,288.2
Total liabilities and shareholders equity	$ 54,535.0	$ 52,118.4

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Income

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In millions, except per share data)	**2012**	**2011**	**2012**	**2011**
Revenues				
Premiums	$ 14,161.0	$ 13,913.6	$ 28,299.5	$ 27,597.7
Administrative fees	977.5	957.7	1,973.3	1,919.7
Other revenue	34.8	8.5	50.7	17.2
Total operating revenue	15,173.3	14,879.8	30,323.5	29,534.6
Net investment income	169.4	187.8	338.4	372.6
Net realized gains on investments	70.5	41.5	177.4	98.6
Other-than-temporary impairment losses on investments:				
Total other-than-temporary impairment losses on investments	(6.5)	(11.1)	(20.2)	(15.9)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	0.6	2.7	3.4	5.1
Other-than-temporary impairment losses recognized in income	(5.9)	(8.4)	(16.8)	(10.8)
Total revenues	15,407.3	15,100.7	30,822.5	29,995.0
Expenses				
Benefit expense	12,093.1	11,922.0	23,865.0	23,150.0
Selling, general and administrative expense:				
Selling expense	393.0	405.6	786.3	802.6
General and administrative expense	1,688.8	1,605.5	3,461.2	3,285.0
Total selling, general and administrative expense	2,081.8	2,011.1	4,247.5	4,087.6
Cost of products	6.7		6.7	
Interest expense	117.6	103.6	226.7	209.5
Amortization of other intangible assets	59.5	56.6	118.2	113.4
Total expenses	14,358.7	14,093.3	28,464.1	27,560.5
Income before income tax expense	1,048.6	1,007.4	2,358.4	2,434.5
Income tax expense	405.0	305.8	858.3	806.3
Net income	$ 643.6	$ 701.6	$ 1,500.1	$ 1,628.2
Net income per share				
Basic	$ 1.96	$ 1.92	$ 4.53	$ 4.40
Diluted	$ 1.94	$ 1.89	$ 4.48	$ 4.34
Dividends per share	$ 0.2875	$ 0.25	$ 0.5750	$ 0.50

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

(In millions)	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
Net income	$ 643.6	$ 701.6	$ 1,500.1	$ 1,628.2
Other comprehensive income, net of tax:				
Change in net unrealized gains/losses on investments	(27.1)	85.2	80.2	98.0
Change in non-credit component of other-than-temporary impairment losses on investments	(0.4)		4.4	4.3
Change in net unrealized gains/losses on cash flow hedges	(0.2)	0.3	0.4	0.7
Change in net periodic pension and postretirement costs	6.3	5.4	13.0	13.7
Foreign currency translation adjustments	(1.4)	1.4	(0.7)	2.4
Other comprehensive (loss) income	(22.8)	92.3	97.3	119.1
Total comprehensive income	$ 620.8	$ 793.9	$ 1,597.4	$ 1,747.3

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In millions)	Six Months Ended June 30 2012	2011
Operating activities		
Net income	$ 1,500.1	$ 1,628.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	(177.4)	(98.6)
Other-than-temporary impairment losses recognized in income	16.8	10.8
Loss on disposal of assets	1.6	1.8
Deferred income taxes	87.6	111.3
Amortization, net of accretion	313.3	258.3
Depreciation expense	47.4	47.2
Share-based compensation	71.5	60.9
Excess tax benefits from share-based compensation	(22.7)	(36.1)
Changes in operating assets and liabilities, net of effect of business combinations:		
Receivables, net	(466.9)	(58.6)
Other invested assets	(14.4)	(18.9)
Other assets	(77.3)	(137.6)
Policy liabilities	(101.9)	526.6
Unearned income	781.3	146.7
Accounts payable and accrued expenses	(380.4)	(456.2)
Other liabilities	187.5	108.1
Income taxes	(3.6)	(186.2)
Other, net	(17.9)	(21.0)
Net cash provided by operating activities	1,744.6	1,886.7
Investing activities		
Purchases of fixed maturity securities	(7,278.9)	(6,351.1)
Proceeds from fixed maturity securities:		
Sales	5,449.4	4,982.9
Maturities, calls and redemptions	875.7	1,204.8
Purchases of equity securities	(186.6)	(194.9)
Proceeds from sales of equity securities	276.1	72.4
Purchases of other invested assets	(95.8)	(61.3)
Proceeds from sales of other invested assets	18.7	14.0
Changes in securities lending collateral	106.1	89.7
Purchases of subsidiaries, net of cash acquired	(905.3)	
Purchases of property and equipment	(226.0)	(206.6)
Proceeds from sales of property and equipment	0.3	3.0
Other, net	(0.9)	(23.1)
Net cash used in investing activities	(1,967.2)	(470.2)
Financing activities		
Net (repayments of) proceeds from commercial paper borrowings	(10.5)	600.9
Proceeds from long-term borrowings	1,722.9	
Repayments of long-term borrowings	(451.1)	(702.7)
Proceeds from short-term borrowings	300.0	100.0
Repayments of short-term borrowings	(200.0)	(100.0)
Changes in securities lending payable	(106.1)	(89.7)
Changes in bank overdrafts	(23.9)	71.1
Repurchase and retirement of common stock	(1,173.6)	(1,456.3)
Cash dividends	(189.3)	(183.9)
Proceeds from issuance of common stock under employee stock plans	83.7	215.2
Excess tax benefits from share-based compensation	22.7	36.1

Net cash used in financing activities	(25.2)	(1,509.3)
Effect of foreign exchange rates on cash and cash equivalents	(0.7)	3.8
Change in cash and cash equivalents	(248.5)	(89.0)
Cash and cash equivalents at beginning of period	2,201.6	1,788.8
Cash and cash equivalents at end of period	$ 1,953.1	$ 1,699.8

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Shareholders Equity

(Unaudited)

(In millions)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
January 1, 2012	339.4	$ 3.4	$ 11,679.2	$ 11,490.7	$ 114.9	$ 23,288.2
Net income				1,500.1		1,500.1
Other comprehensive income					97.3	97.3
Repurchase and retirement of common stock	(17.4)	(0.2)	(597.9)	(575.5)		(1,173.6)
Dividends and dividend equivalents				(191.3)		(191.3)
Issuance of common stock under employee stock plans, net of related tax benefits	3.2		123.1			123.1
June 30, 2012	325.2	$ 3.2	$ 11,204.4	$ 12,224.0	$ 212.2	$ 23,643.8
January 1, 2011	377.7	$ 3.8	$ 12,862.6	$ 10,721.6	$ 224.6	$ 23,812.6
Net income				1,628.2		1,628.2
Other comprehensive income					119.1	119.1
Repurchase and retirement of common stock	(20.8)	(0.2)	(710.2)	(745.9)		(1,456.3)
Dividends and dividend equivalents				(185.8)		(185.8)
Issuance of common stock under employee stock plans, net of related tax benefits	5.3		263.5			263.5
June 30, 2011	362.2	$ 3.6	$ 12,415.9	$ 11,418.1	$ 343.7	$ 24,181.3

See accompanying notes.

WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2012

(In Millions, Except Per Share Data or As Otherwise Stated Herein)

1. Organization

References to the terms we , our , us , WellPoint or the Company used throughout these Notes to Consolidated Financial Statements refer to WellPoint, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries.

We are one of the largest health benefits companies in the United States, serving 33.5 medical members through our affiliated health plans and more than 65.0 individuals through all subsidiaries as of June 30, 2012. We offer a broad spectrum of network-based managed care plans to large and small employer, individual, Medicaid and senior markets. Our managed care plans include: preferred provider organizations, or PPOs; health maintenance organizations, or HMOs; point-of-service, or POS, plans; traditional indemnity plans and other hybrid plans, including consumer-driven health plans, or CDHPs; and hospital only and limited benefit products. In addition, we provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. We provide an array of specialty and other insurance products and services such as behavioral health benefit services, dental, vision, life and disability insurance benefits, radiology benefit management, analytics-driven personal health care guidance and long-term care insurance. We also provide services to the Federal Government in connection with the Federal Employee Program, or FEP, and various Medicare programs. Finally, we sell contact lenses, eyeglasses and other ocular products through our recently acquired 1-800 CONTACTS, Inc., or 1-800 CONTACTS, subsidiary.

We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee for California; the Blue Cross and Blue Shield, or BCBS, licensee for Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as the BCBS licensee in 10 New York City metropolitan and surrounding counties and as the Blue Cross or BCBS licensee in selected upstate counties only), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.) and Wisconsin. In a majority of these service areas we do business as Anthem Blue Cross, Anthem Blue Cross and Blue Shield, Blue Cross and Blue Shield of Georgia, Empire Blue Cross Blue Shield, or Empire Blue Cross (in our New York service areas). We also serve customers throughout the country as UniCare, and in certain California, Arizona and Nevada markets through our CareMore Health Group, Inc., or CareMore, subsidiary. We are licensed to conduct insurance operations in all 50 states through our subsidiaries.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2011 Annual Report on Form 10-K, unless the information contained in those disclosures materially changed or is required by GAAP. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the consolidated financial statements as of and for the three and six months ended June 30, 2012 and 2011 have been recorded. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2011 included in our 2011 Annual Report on Form 10-K.

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Certain of our subsidiaries operate outside of the United States and have functional currencies other than the U.S. dollar, or USD. We translate the assets and liabilities of those subsidiaries to USD using the exchange rate in effect at the end of the period. We translate the revenues and expenses of those subsidiaries to USD using the average exchange rates in effect during the period. The net effect of these translation adjustments is included in Foreign currency translation adjustments in our consolidated statements of comprehensive income.

Certain prior period amounts have been reclassified to conform to the current period presentation.

3. Business Combinations

Acquisition of 1-800 CONTACTS

On June 20, 2012, we completed our acquisition of 1-800 CONTACTS, the largest direct-to-consumer retailer of contact lenses in the United States, whose model is built on providing a superior customer experience and a wide selection of products at affordable prices. The acquisition strategically aligns with our efforts to capitalize on new opportunities for growth, and diversifies our revenue stream into the complementary and higher-margin eyewear business.

In accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification 805 *Business Combinations,* or ASC 805, the preliminary consideration transferred was allocated to the fair value of 1-800 CONTACTS assets acquired and liabilities assumed, including identifiable intangible assets. The excess of the consideration transferred over the fair value of net assets acquired resulted in preliminary non tax-deductible goodwill of $673.2 at June 30, 2012, all of which was allocated to our Commercial segment. Preliminary goodwill recognized from the acquisition of 1-800 CONTACTS primarily relates to the expected future growth of 1-800 CONTACTS business and further expansion of product offerings, including eyeglasses. In accordance with ASC 805, any additional payments or receipts of cash resulting from contractual purchase price adjustments or any subsequent adjustments made to the assets acquired or liabilities assumed during the measurement period will be recorded as an adjustment to goodwill.

The preliminary fair value of the net assets acquired from 1-800 CONTACTS includes $300.9 of other intangible assets, which primarily consist of finite-lived customer relationships with an amortization period of 13 years and indefinite-lived trade names.

The results of operations of 1-800 CONTACTS are included in our consolidated financial statements within our Commercial segment for the period following June 20, 2012. 1-800 CONTACTS currently operates under an alliance agreement, or the Alliance, with an unrelated third party to provide for the joint management, marketing and fulfillment of orders for products. Profits and losses of the Alliance are allocated to 1-800 CONTACTS based on the terms set forth in the Alliance agreement. Product sales made by 1-800 CONTACTS are reported on our consolidated income statement within Other revenue and expenses for the cost of products sold, as well as certain other allowed expenses as defined in the Alliance agreement, are presented on our consolidated income statement within Cost of products. The Alliance will terminate on December 31, 2012.

The pro-forma effects of this acquisition for prior periods were not material to our consolidated results of operations.

Pending Acquisition of AMERIGROUP Corporation

On July 9, 2012, we announced that we had entered into a definitive agreement to acquire AMERIGROUP Corporation, or Amerigroup, one of the nation s leading managed care companies that is focused on meeting the health care needs of financially vulnerable Americans. This acquisition will further our goal of creating better health care quality at more affordable prices for our customers. It will also advance our capabilities to more effectively and efficiently serve the growing Medicaid population, including the expanding dual eligible, seniors, persons with disabilities and long-term services and support markets. Under the terms of the agreement, we will pay $92.00 per share in cash to acquire all of the outstanding shares of Amerigroup for an estimated transaction

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value of approximately $4,900.0. The acquisition is expected to close by the end of the first quarter of 2013 and is subject to certain state regulatory approvals, standard closing conditions, customary approvals required under the Hart-Scott-Rodino Antitrust Improvements Act and the approval of Amerigroup s stockholders.

4. Restructuring Activities

As a result of restructuring activities implemented during 2011, 2010 and 2009, we recorded liabilities for employee termination costs and lease and other contract exit costs. The restructuring activities are classified as components of general and administrative expenses in the consolidated statements of income for the respective period in which they occurred.

The 2011 restructuring activities were initiated as a result of our efforts to improve, streamline and make our core business processes more efficient and effective. Activity related to these liabilities for the six months ended June 30, 2012, by reportable segment, is as follows:

	Commercial	Consumer	Other	Total
2011 Restructuring Activities				
Employee termination costs:				
Liability for employee termination costs at January 1, 2012	$ 51.8	$ 11.8	$ 0.7	$ 64.3
Payments	(9.8)	(2.2)	(0.1)	(12.1)
Liability released	(1.2)	(0.3)		(1.5)
Liability for employee termination costs at June 30, 2012	40.8	9.3	0.6	50.7
Lease and other contract exit costs:				
Liability for lease and other contract exit costs at January 1, 2012	17.2	5.7	1.9	24.8
Payments	(2.0)	(0.6)	(0.8)	(3.4)
Liability released	(1.1)	(0.4)		(1.5)
Liability for lease and other contract exit costs at June 30, 2012	14.1	4.7	1.1	19.9
Total liability for 2011 restructuring activities at June 30, 2012	$ 54.9	$ 14.0	$ 1.7	$ 70.6

The 2010 restructuring activities were initiated as a result of a change in strategic focus primarily in response to federal health care reform legislation. At June 30, 2012, our total liability for 2010 restructuring activities was $14.9, of which $8.2 related to employee termination costs and $6.7 related to lease and other contract exit costs. We expect the remaining payments for employee termination costs to be substantially completed by the end of 2012. Payments for lease and other contract exit costs will continue to occur over the remaining terms of the related contracts, which have expiration dates ranging through 2020.

The 2009 restructuring activities were executed as a result of a realignment of our corporate strategy. At June 30, 2012, our total liability for 2009 restructuring activities was $28.1, which was primarily comprised of lease and other contract exit costs. Payments for lease and other contract exit costs will continue to occur over the remaining terms of the related contracts, which have expiration dates ranging through 2020.

5. Investments

We evaluate our investment securities for other-than-temporary declines based on qualitative and quantitative factors. Other-than-temporary impairment losses recognized in income totaled $5.9 and $8.4 for the three months ended June 30, 2012 and 2011, respectively. Other-than-temporary impairment losses recognized in income totaled $16.8 and $10.8 for the six months ended June 30, 2012 and 2011, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three and six months ended June 30, 2012 and 2011. We continue to review our investment portfolios under our impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairment losses on investments may be recorded in future periods.

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The changes in the amount of the credit component of other-than-temporary impairment losses on fixed maturity securities recognized in income, for which a portion of the other-than-temporary impairment losses was recognized in other comprehensive income, was not material for the three and six months ended June 30, 2012 and 2011.

A summary of current and long-term investments, available-for-sale, at June 30, 2012 and December 31, 2011 is as follows:

			Gross Unrealized Losses			Non-Credit Component of Other-Than-Temporary Impairments Recognized in AOCI
	Cost or Amortized Cost	Gross Unrealized Gains	Less than 12 Months	Greater than 12 Months	Estimated Fair Value	
June 30, 2012:						
Fixed maturity securities:						
United States Government securities	$ 587.0	$ 20.7	$ (0.2)	$	$ 607.5	$
Government sponsored securities	180.8	2.3			183.1	
States, municipalities and political subdivisions-tax-exempt	5,046.2	369.8	(2.7)	(5.8)	5,407.5	
Corporate securities	7,619.2	316.7	(36.1)	(13.6)	7,886.2	(1.7)
Options embedded in convertible debt securities	72.3				72.3	
Residential mortgage-backed securities	2,544.3	111.3	(2.6)	(7.4)	2,645.6	(0.4)
Commercial mortgage-backed securities	363.0	19.4	(1.0)	(2.0)	379.4	
Other debt obligations	272.9	4.8	(0.4)	(5.7)	271.6	(1.3)
Total fixed maturity securities	16,685.7	845.0	(43.0)	(34.5)	17,453.2	$ (3.4)
Equity securities	874.0	309.1	(14.6)		1,168.5	
Total investments, available-for-sale	$ 17,559.7	$ 1,154.1	$ (57.6)	$ (34.5)	$ 18,621.7	
December 31, 2011:						
Fixed maturity securities:						
United States Government securities	$ 564.9	$ 39.9	$ (0.1)	$	$ 604.7	$
Government sponsored securities	173.1	2.5			175.6	
States, municipalities and political subdivisions-tax-exempt	4,994.2	352.3	(3.9)	(15.0)	5,327.6	(0.5)
Corporate securities	6,588.0	305.3	(88.4)	(6.9)	6,798.0	(0.4)
Options embedded in convertible debt securities	79.7				79.7	
Residential mortgage-backed securities	2,471.4	112.1	(7.6)	(10.9)	2,565.0	(6.2)
Commercial mortgage-backed securities	363.2	14.9	(1.0)	(1.7)	375.4	
Other debt obligations	239.9	3.1	(2.0)	(7.1)	233.9	(3.2)
Total fixed maturity securities	15,474.4	830.1	(103.0)	(41.6)	16,159.9	$ (10.3)
Equity securities	966.1	277.0	(26.2)		1,216.9	
Total investments, available-for-sale	$ 16,440.5	$ 1,107.1	$ (129.2)	$ (41.6)	$ 17,376.8	

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At June 30, 2012, we owned $3,025.0 of mortgage-backed securities and $271.6 of asset-backed securities out of a total available-for-sale investment portfolio of $18,621.7. These securities included sub-prime and Alt-A securities with fair values of $50.4 and $144.0, respectively. These sub-prime and Alt-A securities had accumulated net unrealized losses of $5.0 and $2.9, respectively. The average credit rating of the sub-prime and Alt-A securities was B and B , respectively.

The following tables summarize for fixed maturity securities and equity securities in an unrealized loss position at June 30, 2012 and December 31, 2011, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

	12 Months or Less			Greater than 12 Months		
(Securities are whole amounts)	**Number of Securities**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Number of Securities**	**Estimated Fair Value**	**Gross Unrealized Loss**
June 30, 2012:						
Fixed maturity securities:						
United States Government securities	17	$ 117.7	$ (0.2)		$	$
States, municipalities and political subdivisions-tax-exempt	106	289.9	(2.7)	40	95.0	(5.8)
Corporate securities	874	1,355.6	(36.1)	117	97.5	(13.6)
Residential mortgage-backed securities	64	155.4	(2.6)	68	96.6	(7.4)
Commercial mortgage-backed securities	15	19.7	(1.0)	7	11.8	(2.0)
Other debt obligations	28	50.9	(0.4)	24	31.3	(5.7)
Total fixed maturity securities	1,104	1,989.2	(43.0)	256	332.2	(34.5)
Equity securities	1,151	140.2	(14.6)			
Total fixed maturity and equity security	2,255	$ 2,129.4	$ (57.6)	256	$ 332.2	$ (34.5)
December 31, 2011:						
Fixed maturity securities:						
United States Government securities	3	$ 7.1	$ (0.1)		$	$
States, municipalities and political subdivisions-tax-exempt	19	86.6	(3.9)	84	195.2	(15.0)
Corporate securities	1,047	1,798.1	(88.4)	36	35.4	(6.9)
Residential mortgage-backed securities	91	170.4	(7.6)	65	78.0	(10.9)
Commercial mortgage-backed securities	14	27.7	(1.0)	5	15.6	(1.7)
Other debt obligations	41	118.5	(2.0)	31	32.7	(7.1)
Total fixed maturity securities	1,215	2,208.4	(103.0)	221	356.9	(41.6)
Equity securities	1,137	271.6	(26.2)			
Total fixed maturity and equity security	2,352	$ 2,480.0	$ (129.2)	221	$ 356.9	$ (41.6)

The amortized cost and fair value of fixed maturity securities at June 30, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	**Estimated Fair Value**
Due in one year or less	$ 732.6	$ 744.5
Due after one year through five years	4,678.5	4,862.0
Due after five years through ten years	4,299.9	4,568.5

Due after ten years	4,067.4	4,253.2
Mortgage-backed securities	2,907.3	3,025.0
Total available-for-sale fixed maturity securities	$ 16,685.7	$ 17,453.2

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During the six months ended June 30, 2012, we sold $5,725.5 of fixed maturity and equity securities, which resulted in gross realized gains of $255.1 and gross realized losses of $77.7. In the ordinary course of business, we may sell securities at a loss for a number of reasons, including, but not limited to: (i) changes in the investment environment; (ii) expectation that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; or (v) changes in expected cash flow.

All securities sold resulting in investment gains and losses are recorded on the trade date. Realized gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

6. Fair Value

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

Level Input:	**Input Definition:**
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following methods, assumptions and inputs were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the consolidated balance sheets:

Cash equivalents: Cash equivalents primarily consist of highly rated money market funds with maturities of three months or less, and are purchased daily at par value with specified yield rates. Due to the high ratings and short-term nature of the funds, we designate all cash equivalents as Level I.

Fixed maturity securities, available-for-sale: Fair values of available-for-sale fixed maturity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value to facilitate fair value measurements and disclosures. United States Government securities represent Level I securities, while Level II securities primarily include corporate securities, securities from states, municipalities and political subdivisions and mortgage-backed securities. For securities not actively traded, the third party pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. We have controls in place to review the third party pricing services qualifications and procedures used to determine fair values. In addition, we periodically review the third party pricing services pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. We also have certain fixed maturity securities, primarily corporate debt securities that are designated Level III securities. For these securities, the valuation methodologies may incorporate broker quotes or discounted cash flow analyses using assumptions for inputs such as expected cash flows, benchmark yields and credit spreads that are not observable in the markets.

Equity securities, available-for-sale: Fair values of equity securities are generally designated as Level I and are based on quoted market prices. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. These securities are designated Level II. We also have certain equity securities, including private

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equity securities, for which the fair value is estimated based on each security s current condition and future cash flow projections. Such securities are designated Level III. The fair values of these private equity securities are generally based on either broker quotes or discounted cash flow projections using assumptions for inputs such as the weighted average cost of capital, long-term revenue growth rates and earnings before interest, taxes, depreciation and amortization, or EBITDA, and/or revenue multiples that are not observable in the markets.

Other invested assets, current: Other invested assets, current include securities held in rabbi trusts that are classified as trading. Fair values are based on quoted market prices.

Securities lending collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value, to facilitate fair value measurements and disclosures.

Derivatives-interest rate swaps: Fair values are based on the quoted market prices by the financial institution that is the counterparty to the swap. We independently verify prices provided by the counterparties using valuation models that incorporate market observable inputs for similar interest rate swaps.

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A summary of fair value measurements by level for assets measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011 is as follows:

	Level I	Level II	Level III	Total
June 30, 2012:				
Assets:				
Cash equivalents	$ 929.9	$	$	$ 929.9
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	607.5			607.5
Government sponsored securities		183.1		183.1
States, municipalities and political subdivisions - tax-exempt		5,407.5		5,407.5
Corporate securities		7,758.5	127.7	7,886.2
Options embedded in convertible debt securities		72.3		72.3
Residential mortgage-backed securities		2,644.2	1.4	2,645.6
Commercial mortgage-backed securities		374.1	5.3	379.4
Other debt obligations		267.7	3.9	271.6
Total fixed maturity securities	607.5	16,707.4	138.3	17,453.2
Equity securities	1,022.5	117.2	28.8	1,168.5
Other invested assets, current	16.0			16.0
Securities lending collateral	304.4	461.5		765.9
Derivatives excluding embedded options (reported with other assets)		79.8		79.8
Total assets	$ 2,880.3	$ 17,365.9	$ 167.1	$ 20,413.3
December 31, 2011:				
Assets:				
Cash equivalents	$ 1,675.8	$	$	$ 1,675.8
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	604.7			604.7
Government sponsored securities		175.6		175.6
States, municipalities and political subdivisions - tax-exempt		5,327.6		5,327.6
Corporate securities		6,602.9	195.1	6,798.0
Options embedded in convertible debt securities		79.7		79.7
Residential mortgage-backed securities		2,565.0		2,565.0
Commercial mortgage-backed securities		369.1	6.3	375.4
Other debt obligations		174.9	59.0	233.9
Total fixed maturity securities	604.7	15,294.8	260.4	16,159.9
Equity securities	1,104.9	87.6	24.4	1,216.9
Other invested assets, current	14.8			14.8
Securities lending collateral	422.3	449.1		871.4
Derivatives excluding embedded options (reported with other assets)		86.6		86.6
Total assets	$ 3,822.5	$ 15,918.1	$ 284.8	$ 20,025.4

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the three months ended June 30, 2012 and 2011 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Obligations	Equity Securities	Total
Three Months Ended June 30, 2012:						
Beginning balance at April 1, 2012	$ 109.2	$ 1.4	$	$ 8.7	$ 20.6	$ 139.9
Total gains (losses):						
Recognized in net income	0.3				0.1	0.4
Recognized in accumulated other comprehensive income	(0.6)			0.1	(4.3)	(4.8)
Purchases	27.4		3.4		0.3	31.1
Sales	(3.2)			(6.6)	(0.4)	(10.2)
Issues						
Settlements	(7.1)			(0.3)		(7.4)
Transfers into Level III	1.7		1.9	2.0	12.5	18.1
Transfers out of Level III						
Ending balance at June 30, 2012	$ 127.7	$ 1.4	$ 5.3	$ 3.9	$ 28.8	$ 167.1
Change in unrealized losses included in net income related to assets still held for the three months ended June 30, 2012	$	$	$	$	$	$
Three Months Ended June 30, 2011:						
Beginning balance at April 1, 2011	$ 252.0	$ 3.6	$ 8.0	$ 71.8	$ 28.2	$ 363.6
Total gains (losses):						
Recognized in net income	5.1			(0.1)	(2.4)	2.6
Recognized in accumulated other comprehensive income	(4.9)			(1.1)	2.9	(3.1)
Purchases	9.8			2.7	0.1	12.6
Sales	(3.9)	(3.6)		(4.8)		(12.3)
Issues						
Settlements	(116.9)		(0.4)	(4.7)		(122.0)
Transfers into Level III	41.4		5.5		0.2	47.1
Transfers out of Level III						
Ending balance at June 30, 2011	$ 182.6	$	$ 13.1	$ 63.8	$ 29.0	$ 288.5
Change in unrealized losses included in net income related to assets still held for the three months ended June 30, 2011	$	$	$	$ (0.2)	$ (2.4)	$ (2.6)

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the six months ended June 30, 2012 and 2011 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Obligations	Equity Securities	Total
Six Months Ended June 30, 2012:						
Beginning balance at January 1, 2012	$ 195.1	$	$ 6.3	$ 59.0	$ 24.4	$ 284.8
Total gains (losses):						
Recognized in net income	15.5			0.1	(0.3)	15.3
Recognized in accumulated other comprehensive income	(17.5)			0.2	(7.7)	(25.0)
Purchases	46.2		3.4		0.3	49.9
Sales	(5.1)			(6.6)	(0.4)	(12.1)
Issues						
Settlements	(58.8)			(0.8)		(59.6)
Transfers into Level III	1.7	1.4	1.9	2.0	12.5	19.5
Transfers out of Level III	(49.4)		(6.3)	(50.0)		(105.7)
Ending balance at June 30, 2012	$ 127.7	$ 1.4	$ 5.3	$ 3.9	$ 28.8	$ 167.1
Change in unrealized losses included in net income related to assets still held for the six months ended June 30, 2012	$	$	$	$	$ (0.4)	$ (0.4)
Six Months Ended June 30, 2011:						
Beginning balance at January 1, 2011	$ 278.4	$ 3.8	$ 7.8	$ 81.4	$ 17.3	$ 388.7
Total gains (losses):						
Recognized in net income	6.5			(0.6)	(3.9)	2.0
Recognized in accumulated other comprehensive income	(6.5)		0.5	1.0	5.7	0.7
Purchases	15.3			3.5	10.1	28.9
Sales	(23.9)	(3.6)		(11.5)	(0.4)	(39.4)
Issues						
Settlements	(128.6)	(0.2)	(0.7)	(10.0)		(139.5)
Transfers into Level III	41.4		5.5		0.2	47.1
Transfers out of Level III						
Ending balance at June 30, 2011	$ 182.6	$	$ 13.1	$ 63.8	$ 29.0	$ 288.5
Change in unrealized losses included in net income related to assets still held for the six months ended June 30, 2011	$	$	$	$ (0.3)	$ (3.9)	$ (4.2)

Transfers between levels, if any, are recorded as of the beginning of the reporting period. During the six months ended June 30, 2012, certain securities, primarily equity securities, that were previously classified as Level II were transferred into Level III as a result of previously observable inputs becoming unobservable due to market inactivity. During the six months ended June 30, 2012, the transfers out of Level III of corporate securities and commercial mortgage-backed securities were for certain sub-prime securities transferred from Level III to Level II as a result of inputs that were previously unobservable becoming observable due to increased volume and level of trading in active markets. In addition, the transfers out of Level III of other debt obligations were for certain inverse floating rate securities transferred from Level III to Level II as a result of those securities impending maturity and settlement and recent trading activity of similar securities in observable markets.

During the three and six months ended June 30, 2012, there were no transfers from Level I to Level II or from Level II to Level I.

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There were no material transfers between Level I, Level II and Level III during the three and six months ended June 30, 2011.

As disclosed in Note 3, Business Combinations , we completed our acquisition of 1-800 CONTACTS on June 20, 2012. The preliminary values of net assets acquired and resulting goodwill and other intangible assets were recorded at fair value using Level III inputs. The majority of 1-800 CONTACTS assets acquired and liabilities assumed were recorded at their carrying values as of the date of acquisition, as their carrying values approximated their fair values due to their short-term nature. The preliminary fair values of goodwill and other intangible assets acquired in our acquisition of 1-800 CONTACTS were internally estimated based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets can be expected to generate in the future. We developed internal estimates for the expected cash flows and discount rate in the present value calculation. Other than assets acquired and liabilities assumed in our acquisition of 1-800 CONTACTS, there were no assets or liabilities measured at fair value on a nonrecurring basis during the three and six months ended June 30, 2012 or 2011.

Our valuation policy is determined by members of our treasury and accounting departments. Whenever possible, our policy is to obtain quoted market prices in active markets to estimate fair values for recognition and disclosure purposes. Where quoted market prices in active markets are not available, fair values are estimated using discounted cash flow analyses, broker quotes or other valuation techniques. These techniques are significantly affected by our assumptions, including discount rates and estimates of future cash flows. Potential taxes and other transaction costs are not considered in estimating fair values. Our valuation policy is generally to obtain only one quoted price for each security from third party pricing services, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. When broker quotes are used, we generally obtain only one broker quote per security. As we are responsible for the determination of fair value, we perform monthly analysis on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. This analysis is performed by our internal treasury personnel who are familiar with our investment portfolios, the third party pricing services engaged and the valuation techniques and inputs used. Our analysis includes a review of month-to-month price fluctuations. If unusual fluctuations are noted in this review, we may obtain additional information from other pricing services to validate the quoted price. There were no adjustments to quoted market prices obtained from third party pricing services during the three and six months ended June 30, 2012 or 2011.

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB guidance also requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in the consolidated balance sheets.

Non-financial instruments such as real estate, property and equipment, other current assets, deferred income taxes and intangible assets, and certain financial instruments such as policy liabilities are excluded from the fair value disclosures. Therefore, the fair value amounts cannot be aggregated to determine our underlying economic value.

The carrying amounts reported in the consolidated balance sheets for cash, accrued investment income, premium and self-funded receivables, other receivables, unearned income, accounts payable and accrued expenses, income taxes receivable/payable, security trades pending payable, securities lending payable and certain other current liabilities approximate fair value because of the short term nature of these items. These assets and liabilities are not listed in the table below.

The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument:

Other invested assets, long-term: Other invested assets, long-term include primarily our investments in limited partnerships, joint ventures and other non-controlled corporations, as well as the cash surrender value of corporate-owned life insurance policies. In accordance with FASB guidance, our investments in limited

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partnerships, joint ventures and other non-controlled corporations are generally carried at our share in the entities undistributed earnings, which approximates fair value. As these investments are not actively traded and the corresponding inputs are derived from internal estimates, they are classified as Level III. Corporate-owned life insurance policies are classified as Level III and are carried at the cash surrender value as reported by the respective insurer, which approximates fair value.

Short-term borrowings: The fair value of our short-term borrowings is based on quoted market prices for the same or similar debt, or, if no quoted market prices are available, on the current market interest rates available to us for debt of similar terms and remaining maturities.

Long-term debt-commercial paper: The carrying amount for commercial paper approximates fair value as the underlying instruments have variable interest rates at market value.

Long-term debt-notes and capital leases: The fair values of our notes are based on quoted market prices in active markets for the same or similar debt, or, if no quoted market prices are available, on the current market observable rates estimated to be available to us for debt of similar terms and remaining maturities. Capital leases are classified as Level III and are carried at the unamortized present value of the minimum lease payments, which approximates fair value.

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our consolidated balance sheet at June 30, 2012 are as follows:

	Carrying Value	Fair Value Level I	Level II	Level III	Total
Assets:					
Other invested assets, long-term	$ 1,191.2	$	$	$ 1,191.2	$ 1,191.2
Liabilities:					
Debt:					
Short-term borrowings	200.0		200.0		200.0
Commercial paper	789.3		789.3		789.3
Notes and capital leases	10,160.0		11,303.1	31.0	11,334.1

A summary of the carrying value and fair value of financial instruments not recorded at fair value on our consolidated balance sheet at December 31, 2011 are as follows:

	Carrying Value	Fair Value
Assets:		
Other invested assets, long-term	$ 1,103.3	$ 1,103.3
Liabilities:		
Debt:		
Short-term borrowings	100.0	100.0
Commercial paper	799.8	799.8
Notes and capital leases	8,895.6	9,871.7

7. Income Taxes

During the three months ended June 30, 2012 and 2011, we recognized income tax expense of $405.0 and $305.8, respectively, which represents effective tax rates of 38.6% and 30.4%, respectively. During the six months ended June 30, 2012 and 2011, we recognized income tax expense of $858.3 and $806.3, respectively, which represents effective tax rates of 36.4% and 33.1%, respectively. The increase in the effective tax rate in 2012 primarily resulted from the non-tax deductibility of litigation settlement expenses associated with the settlement of a class action lawsuit in June 2012 and, to a lesser extent, prior year federal and state audit settlements that occurred during 2011. These increases were partially offset by lower income before income tax expense. For additional information regarding the litigation settlement, see Note 10, Commitments and Contingencies.

8. Retirement Benefits

The components of net periodic benefit cost included in the consolidated statements of income for the three months ended June 30, 2012 and 2011 are as follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	$ 4.0	$ 4.3	$ 1.7	$ 1.5
Interest cost	19.2	21.2	6.9	7.8
Expected return on assets	(33.6)	(32.0)	(5.3)	(4.3)
Recognized actuarial loss	7.6	6.4	3.7	2.6
Settlement loss	3.0	3.3		
Amortization of prior service credit	(0.2)	(0.2)	(3.4)	(3.0)
Net periodic benefit cost	$	$ 3.0	$ 3.6	$ 4.6

The components of net periodic benefit cost included in the consolidated statements of income for the six months ended June 30, 2012 and 2011 are as follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	$ 8.2	$ 8.6	$ 3.4	$ 3.2
Interest cost	38.3	42.4	13.8	16.2
Expected return on assets	(67.3)	(64.1)	(10.5)	(8.6)
Recognized actuarial loss	15.2	12.9	7.1	5.2
Settlement loss	6.6	10.7		
Amortization of prior service credit	(0.4)	(0.4)	(6.7)	(5.4)
Net periodic benefit cost	$ 0.6	$ 10.1	$ 7.1	$ 10.6

For the year ending December 31, 2012, no material contributions are expected to be necessary to meet the Employee Retirement Income Security Act, or ERISA, required funding levels; however, we may elect to make discretionary contributions up to the maximum amount deductible for income tax purposes. No contributions were made to our retirement benefit plans during the three and six months ended June 30, 2012 and 2011.

9. Debt

We have a senior revolving credit facility, or the facility, with certain lenders for general corporate purposes. The facility, as amended, provides credit up to $2,000.0, and matures on September 29, 2016. There were no amounts outstanding under this facility as of June 30, 2012 or at any time during the three and six months then ended.

We have an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. At June 30, 2012, we had $789.3 outstanding under this program.

At maturity on April 9, 2012, we refinanced the $100.0 outstanding balance of our 1.430% fixed rate Federal Home Loan Bank secured loan to a three month term loan with a fixed interest rate of 0.370%.

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On May 7, 2012, we issued $850.0 of 3.125% notes due 2022 and $900.0 of 4.625% notes due 2042 under our shelf registration statement. We intend to use the proceeds from this offering for working capital and for general corporate purposes, including, but not limited to, repayment of short-term and long-term debt. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows a note holder to require us to repurchase the notes upon the occurrence of both a change in control event and a downgrade of the notes below an investment grade rating.

10. Commitments and Contingencies

Litigation

In the ordinary course of business, we are defendants in, or parties to, a number of pending or threatened legal actions or proceedings. To the extent a plaintiff or plaintiffs in the following cases have specified in their complaint or in other court filings the amount of damages being sought, we have noted those alleged damages in the descriptions below. With respect to the cases described below, we contest liability and/or the amount of damages in each matter and believe we have meritorious defenses.

In the Los Angeles County Superior Court, we are defending a lawsuit filed by the Los Angeles City Attorney alleging the wrongful rescission of individual insurance policies and representations made concerning rescission practices and policies. The suit names WellPoint as well as Blue Cross of California, or BCC, and BC Life & Health Insurance Company, or BCL&H (which name changed to Anthem Blue Cross Life and Health Insurance Company in July 2007), both WellPoint subsidiaries. The lawsuit generally alleges unfair business practices in a purported practice of rescinding new individual members following the submission of large claims. The Los Angeles City Attorney filed an amended complaint in October 2010, adding claims of misrepresentation arising from several public statements made by the Company during 2010. The Los Angeles City Attorney is requesting two thousand five hundred dollars ($2,500) per alleged violation of the California Business and Professions Code. We intend to vigorously defend this suit; however, the ultimate outcome cannot be presently determined.

We are currently defending several certified class actions filed as a result of the 2001 demutualization of Anthem Insurance Companies, Inc., or AICI, and the initial public offering of common stock, or IPO, for its holding company, Anthem, Inc. (n/k/a WellPoint, Inc.). The suits name AICI as well as Anthem, Inc., or Anthem, n/k/a WellPoint, Inc. The suits are captioned as *Ronald Gold, et al. v. Anthem, Inc. et al.; Mary E. Ormond, et al. v. Anthem, Inc., et al.; and Ronald E. Mell, Sr., et al. v. Anthem, Inc., et al.* AICI s 2001 Plan of Conversion, or the Plan, provided for the conversion of AICI from a mutual insurance company into a stock insurance company pursuant to Indiana law. Under the Plan, AICI distributed the fair value of the company at the time of conversion to its Eligible Statutory Members, or ESMs, in the form of cash or Anthem common stock in exchange for their membership interests in the mutual company. The lawsuits generally allege that AICI distributed value to the wrong ESMs or distributed insufficient value to the ESMs. In *Gold*, cross motions for summary judgment were granted in part and denied in part on July 26, 2006 with regard to the issue of sovereign immunity asserted by co-defendant, the State of Connecticut, or the State. The court also denied our motion for summary judgment as to plaintiffs claims on January 10, 2005. The State appealed the denial of its motion to the Connecticut Supreme Court. We filed a cross-appeal on the sovereign immunity issue. On May 11, 2010, the Court reversed the judgment of the trial court denying the State s motion to dismiss the plaintiff s claims under sovereign immunity and dismissed our cross-appeal. The case was remanded to the trial court for further proceedings. Plaintiffs motion for class certification was granted on December 15, 2011. In the *Ormond* suit, our motion to dismiss was granted in part and denied in part on March 31, 2008. The Court dismissed the claims for violation of federal and state securities laws, for violation of the Indiana Demutualization Law, for unjust enrichment, and for negligent misrepresentation with respect to ESMs residing in Indiana. On September 29, 2009, a class was certified with respect to some but not all claims asserted in the plaintiffs Fourth Amended Complaint. The class consists of all ESMs residing in Ohio, Indiana, Kentucky or Connecticut who received cash compensation in connection with the demutualization. The class does not include employers located in Ohio and Connecticut that received cash distributions pursuant to the Plan. On July 1, 2011, the Court issued an Order granting in part and denying in part

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our motion for summary judgment. The Court held that we were entitled to judgment on all of plaintiffs claims except those tort claims in connection with the pricing and sizing of the Anthem, Inc. IPO. The parties have reached an agreement to resolve the *Ormond* suit. On June 15, 2012, plaintiffs filed an unopposed motion for preliminary approval of a $90.0 cash settlement, including any amounts to be awarded for attorneys fees and expenses and other costs to administer the settlement. As a result, during the six months ended June 30, 2012, we recorded selling, general and administrative expense of $90.0, or $0.27 per diluted share, associated with this settlement, which was non-deductible for tax purposes. The Court granted plaintiffs motion and entered preliminary approval of the settlement on June 18, 2012. As a result, the trial that had been set for June 18, 2012 was vacated. The cash settlement was paid on July 3, 2012 into an escrow account in which the settlement funds will remain until the Court approves the settlement. A final fairness hearing on the settlement is scheduled for October 25, 2012. On November 4, 2009 a class was certified in the *Mell* suit. That class consists of persons who were continuously enrolled in the health benefit plan sponsored by the City of Cincinnati between June 18, 2001 and November 2, 2001. On March 3, 2010, the Court issued an order granting our motion for summary judgment. As a result, the *Mell* suit has been dismissed. The plaintiffs have filed an appeal with the United States Court of Appeals for the Sixth Circuit Court. Argument on the appeal was held on January 20, 2012. We intend to vigorously defend the *Mell* and *Gold* lawsuits; however, their ultimate outcome cannot be presently determined.

We are currently a defendant in a putative class action relating to out-of-network, or OON, reimbursement of dental claims called *American Dental Association v. WellPoint Health Networks, Inc. and Blue Cross of California.* The lawsuit was filed in March 2002 by the American Dental Association, and three dentists who are suing on behalf of themselves and are seeking to sue on behalf of a nationwide class of all non-participating dental providers who were paid less than their actual charges for dental services provided to members of some of our affiliates and subsidiaries dental plans. The dentists sue as purported assignees of their patients rights to benefits under our dental plans. The complaint alleges that we breached our contractual obligations in violation of ERISA by paying usual, customary and reasonable, or UCR, rates, rather than the dentists actual charges, allegedly relying on undisclosed, non-existent or flawed UCR data. The plaintiffs claim, among other things, that the data failed to account for differences in geography, provider specialty, outlier (high) charges, and complexity of procedure. The complaint further alleges that we were aware that the data was inappropriate to set UCR rates and that we routinely paid OON dentists less than their actual charges representing that our OON payments were properly determined usual, customary and reasonable rates. The suit was pending in the United States District Court for the Southern District of Florida. On December 23, 2011, the District Court granted our motion for summary judgment and dismissed the case. The plaintiffs filed a notice of appeal with the United States Court of Appeals for the Eleventh Circuit, which is pending. We intend to vigorously defend this suit; however, its ultimate outcome cannot be presently determined.

We are currently a defendant in eleven putative class actions relating to OON reimbursement that were consolidated into a single multi-district lawsuit called *In re WellPoint, Inc. Out-of-Network UCR Rates Litigation* that is pending in the United States District Court for the Central District of California. The lawsuits were filed in 2009. The plaintiffs include current and former members on behalf of a putative class of members who received OON services for which the defendants paid less than billed charges, the American Medical Association, four state medical associations, OON physicians, chiropractors, clinical psychologists, podiatrists, psychotherapists, the American Podiatric Association, California Chiropractic Association and the California Psychological Association on behalf of a putative class of all physicians and all non-physician health care providers, and an OON surgical center. In the consolidated complaint, the plaintiffs allege that the defendants violated the Racketeer Influenced and Corrupt Organizations Act, or RICO, the Sherman Antitrust Act, ERISA, federal regulations, and state law by relying on databases provided by Ingenix in determining OON reimbursement. A consolidated amended complaint was filed to add allegations in the lawsuit that OON reimbursement was calculated improperly by methodologies other than the Ingenix databases. We filed a motion to dismiss the amended consolidated complaint. The motion was granted in part and denied in part. The court gave the plaintiffs permission to replead many of those claims that were dismissed. The plaintiffs filed a third amended consolidated complaint repleading some of the claims that had been dismissed without prejudice and adding additional statements in an attempt to bolster other claims. We filed a motion to dismiss the third amended consolidated complaint, which is pending. The OON surgical center voluntarily dismissed their claims. Fact discovery is complete. At the end of 2009, we filed a motion in the United States District Court for the Southern District of Florida, or the Florida Court, to enjoin the claims brought by the medical doctors and doctors of osteopathy and certain medical associations based on prior litigation releases, which was granted in 2011, and that court ordered the plaintiffs to dismiss their claims that are barred by the release. The plaintiffs then filed a petition for declaratory judgment asking the court to find that these claims are not barred by the releases from the prior litigation. We filed a motion to dismiss the declaratory judgment action, which was granted. The plaintiffs appealed the dismissal of the declaratory judgment to the United States Court of Appeals for the Eleventh Circuit, but the dismissal was upheld. The enjoined physicians have not yet dismissed their claims. The Florida Court found the enjoined physicians in contempt, but has not yet issued an order on sanctions. We intend to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

Where available information indicates that it is probable that a loss has been incurred as of the date of the consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income. In many proceedings, however, it is difficult to determine whether any loss is probable or reasonably possible. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously identified loss contingency, it is not always possible to reasonably estimate the amount of the possible loss or range of loss.

With respect to many of the proceedings to which we are a party, we cannot provide an estimate of the possible losses, or the range of possible losses in excess of the amount, if any, accrued, for various reasons, including but not limited to some or all of the following: (i) there are novel or unsettled legal issues presented, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or decertified or the ultimate size and scope of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) in many cases, the plaintiffs have not specified damages in their complaint or in court filings. For those legal proceedings where a loss is probable, or reasonably possible, and for which it is possible to reasonably estimate the amount of the possible loss or range of losses, we currently believe that the range of possible losses, in excess of established reserves, for all of those proceedings is from $0 to approximately $500.0 at June 30, 2012. This estimated aggregate range of reasonably possible losses is based upon currently available information taking into account our best estimate of such losses for which such an estimate can be made.

Other Contingencies

From time to time, we and certain of our subsidiaries are parties to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. We, like HMOs and health insurers generally, exclude certain health care and other services from coverage under our HMO, PPO and other plans. We are, in the ordinary course of business, subject to the claims of our enrollees arising out of decisions to restrict or deny reimbursement for uncovered services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on us. In addition, the risk of potential liability under punitive damage theories may increase significantly the difficulty of obtaining reasonable settlements of coverage claims.

In addition to the lawsuits described above, we are also involved in other pending and threatened litigation of the character incidental to our business, arising out of our operations and our revision of earnings guidance in 2008, and are from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits, reviews and administrative proceedings include routine and special inquiries by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on our business operations. Any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on our consolidated financial position or results of operations.

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The National Organization of Life & Health Insurance Guaranty Associations, or NOLHGA, is a voluntary organization consisting of the state life and health insurance guaranty associations located throughout the U.S. State life and health insurance guaranty associations, working together with NOLHGA, provide a safety net for their state s policyholders, ensuring that they continue to receive coverage even if their insurer is declared insolvent. We are aware that the Pennsylvania Insurance Commissioner, or Insurance Commissioner, has placed Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company, or collectively Penn Treaty, in rehabilitation, an intermediate action before insolvency. The state court has ordered that the Commissioner provide an updated plan of rehabilitation. This plan is expected to be filed during the fourth quarter of 2012. In the event rehabilitation of Penn Treaty is unsuccessful and Penn Treaty is declared insolvent and placed in liquidation, we and other insurers may be required to pay a portion of their policyholder claims through state guaranty association assessments in future periods. Given the uncertainty around whether Penn Treaty will ultimately be declared insolvent and, if so, the amount of the insolvency, the amount and timing of any associated future guaranty fund assessments and the availability and amount of any potential premium tax and other offsets, we currently cannot estimate our net exposure, if any, to this potential insolvency. We will continue to monitor the situation and may record a liability and expense in future reporting periods, which could be material to our cash flows and results of operations.

Contractual Obligations and Commitments

On December 1, 2009, we entered into a ten-year agreement with Express Scripts, Inc. (Express Scripts) to provide pharmacy benefit management services for our plans. Under this agreement, Express Scripts is now the exclusive provider of certain specified pharmacy benefit management services, such as pharmacy network management, home delivery, pharmacy customer service, claims processing, rebate management, drug utilization and specialty pharmaceutical management services. Accordingly, the agreement contains certain financial and operational requirements obligating both Express Scripts and us. Express Scripts primary obligations relate to the performance of such services and meeting certain pricing guarantees and performance standards. Our primary obligations relate to oversight, provision of data, payment for services, transition services and certain minimum volume requirements. The failure by either party to meet the respective requirements could potentially serve as a basis for financial penalties or early termination of the contract. We believe we have appropriately recognized all rights and obligations under this contract at June 30, 2012.

During the first quarter of 2010, we entered into a new agreement with International Business Machines Corporation to provide information technology infrastructure services. This new agreement supersedes certain prior agreements and also includes provisions for additional services. Our remaining commitment under this agreement at June 30, 2012 was $693.3 over a three year period. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

On March 31, 2009, we entered into an agreement with Affiliated Computer Services, Inc. to provide certain print and mailroom services that were previously performed in-house. Our remaining commitment under this agreement at June 30, 2012 was $235.7 over a four year period. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

11. Capital Stock

Use of Capital Dividends and Stock Repurchase Program

We regularly review the appropriate use of capital, including common stock repurchases and dividends to shareholders. The declaration and payment of any dividends or repurchases of our common stock are at the discretion of our Board of Directors and depend upon our financial condition, results of operations, future liquidity needs, regulatory and capital requirements and other factors deemed relevant by our Board of Directors.

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A summary of the cash dividend activity for the six months ended June 30, 2012 and 2011 is as follows:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
Six Months Ended June 30, 2012				
January 24, 2012	March 9, 2012	March 23, 2012	$ 0.2875	$ 95.8
May 16, 2012	June 8, 2012	June 25, 2012	0.2875	93.5
Six Months Ended June 30, 2011				
February 22, 2011	March 10, 2011	March 25, 2011	$ 0.25	$ 92.8
May 17, 2011	June 10, 2011	June 24, 2011	0.25	91.1

Under our Board of Directors authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing market prices, subject to certain restrictions on volume, pricing and timing. The repurchases are effected from time to time in the open market, in private transactions, including accelerated share repurchase agreements, and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Our stock repurchase program is discretionary as we are under no obligation to repurchase shares. We repurchase shares under the program when we believe it is a prudent use of capital. The excess cost of repurchased shares over par value is charged on a pro rata basis to additional paid-in capital and retained earnings.

A summary of share repurchases for the period July 1, 2012 through July 12, 2012 (subsequent to June 30, 2012) and for the six months ended June 30, 2012 and 2011 is as follows:

	July 1, 2012 Through July 12, 2012	Six Months Ended June 30	
		2012	2011
Shares repurchased		17.4	20.8
Average price per share	$	$ 67.52	$ 69.92
Aggregate cost	$	$ 1,173.6	$ 1,456.3
Authorization remaining at the end of each period	$ 3,160.2	$ 3,160.2	$ 667.2

Stock Incentive Plans

A summary of stock option activity for the six months ended June 30, 2012 is as follows:

	Number of Shares	Weighted-Average Option Price per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	20.0	$ 62.30		
Granted	1.7	66.35		
Exercised	(1.8)	46.19		
Forfeited or expired	(1.1)	74.12		
Outstanding at June 30, 2012	18.8	63.56	3.8	$ 121.7
Exercisable at June 30, 2012	15.5	63.20	3.4	$ 120.0

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A summary of nonvested restricted stock unit activity for the six months ended June 30, 2012 is as follows:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at January 1, 2012	4.0	$ 56.00
Granted	1.8	66.50
Vested	(2.0)	48.57
Forfeited	(0.2)	63.01
Nonvested at June 30, 2012	3.6	65.21

Fair Value

We use a binomial lattice valuation model to estimate the fair value of all stock options granted. For a more detailed discussion of our stock incentive plan fair value methodology, see Note 15, Capital Stock, to our audited consolidated financial statements as of and for the year ended December 31, 2011 included in our 2011 Annual Report on Form 10-K.

The following weighted-average assumptions were used to estimate the fair values of options granted during the six months ended June 30, 2012 and 2011:

	2012	2011
Risk-free interest rate	1.41%	2.84%
Volatility factor	34.00%	34.00%
Quarterly dividend yield	0.400%	0.379%
Weighted-average expected life (years)	4.1	4.0

The following weighted-average fair values were determined for the six months ended June 30, 2012 and 2011:

	2012	2011
Options granted during the period	$ 16.53	$ 17.81

12. Earnings per Share

The denominator for basic and diluted earnings per share for the three and six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Denominator for basic earnings per share weighted average shares	327.7	366.1	331.3	370.1
Effect of dilutive securities employee and director stock options and non-vested restricted stock awards	3.5	5.4	3.8	5.3
Denominator for diluted earnings per share	331.2	371.5	335.1	375.4

During the three months ended June 30, 2012 and 2011, weighted average shares related to certain stock options of 10.8 and 8.1, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive. During the six months ended June 30, 2012 and 2011, weighted average shares related to certain stock options of 10.5 and 10.1, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

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During the six months ended June 30, 2012, we issued approximately 1.8 restricted stock units under our stock incentive plans, 0.8 of whose vesting is contingent upon us meeting specified annual performance targets for 2012. The contingent restricted stock units have been excluded from the denominator for diluted earnings per share and will be included only if and when the contingency is met.

13. Segment Information

Our organizational structure is comprised of three reportable segments: Commercial, Consumer and Other, as further described in Note 20, Segment Information, to our audited consolidated financial statements as of and for the year ended December 31, 2011 included in our 2011 Annual Report on Form 10-K.

Financial data by reportable segment for the three and six months ended June 30, 2012 and 2011 is as follows:

	Commercial	Consumer	Other	Total
Three Months Ended June 30, 2012:				
Operating revenue from external customers	$ 8,388.7	$ 4,826.5	$ 1,958.1	$ 15,173.3
Operating gain	771.2	211.1	9.4	991.7
Three Months Ended June 30, 2011:				
Operating revenue from external customers	$ 8,646.8	$ 4,353.4	$ 1,879.6	$ 14,879.8
Operating gain	747.2	176.7	22.8	946.7
Six Months Ended June 30, 2012:				
Operating revenue from external customers	$ 16,895.2	$ 9,576.9	$ 3,851.4	$ 30,323.5
Operating gain	1,763.0	428.8	12.5	2,204.3
Six Months Ended June 30, 2011:				
Operating revenue from external customers	$ 17,210.9	$ 8,587.8	$ 3,735.9	$ 29,534.6
Operating gain	1,872.3	382.5	42.2	2,297.0

A reconciliation of reportable segments operating revenues to total revenues reported in the consolidated statements of income for the three and six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Reportable segments operating revenues	$ 15,173.3	$ 14,879.8	$ 30,323.5	$ 29,534.6
Net investment income	169.4	187.8	338.4	372.6
Net realized gains on investments	70.5	41.5	177.4	98.6
Other-than-temporary impairment losses recognized in income	(5.9)	(8.4)	(16.8)	(10.8)
Total revenues	$ 15,407.3	$ 15,100.7	$ 30,822.5	$ 29,995.0

A reconciliation of reportable segments operating gain to income before income tax expense included in the consolidated statements of income for the three and six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Reportable segments operating gain	$ 991.7	$ 946.7	$ 2,204.3	$ 2,297.0
Net investment income	169.4	187.8	338.4	372.6
Net realized gains on investments	70.5	41.5	177.4	98.6
Other-than-temporary impairment losses recognized in income	(5.9)	(8.4)	(16.8)	(10.8)
Interest expense	(117.6)	(103.6)	(226.7)	(209.5)

Amortization of other intangible assets	(59.5)	(56.6)	(118.2)	(113.4)
Income before income tax expense	$ 1,048.6	$ 1,007.4	$ 2,358.4	$ 2,434.5

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Millions, Except Per Share Data or Otherwise Stated Herein)

References to the terms we , our or us used throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, refer to WellPoint, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries.

This MD&A should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2011 and the MD&A included in our 2011 Annual Report on Form 10-K, and our unaudited consolidated financial statements and accompanying notes as of and for the three and six months ended June 30, 2012 included in this Form 10-Q. Results of operations, cost of care trends, investment yields and other measures for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results and trends that may be expected for the full year ending December 31, 2012. Also see Part I, Item 1A, Risk Factors of our 2011 Annual Report on Form 10-K and Part II, Item 1A, Risk Factors of this Form 10-Q.

Overview

We manage our operations through three reportable segments: Commercial, Consumer and Other. For additional information about our organization, see the Overview section of Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations included in our 2011 Annual Report on Form 10-K.

On June 28, 2012, the U.S. Supreme Court issued a decision affirming that the majority of the provisions of the Patient Protection and Affordable Care Act, or ACA, are constitutional. However, the provision of the ACA related to the mandatory expansion of state Medicaid programs was declared unconstitutional. For additional discussion around the ACA and other provisions of health care reform legislation, see Part I, Item 1. Business Regulation and Part I, Item 1A. Risk Factors included in our 2011 Annual Report on Form 10-K.

Executive Summary

We are one of the largest health benefits companies in the United States, serving 33.5 medical members through our affiliated health plans and more than 65.0 individuals through all subsidiaries as of June 30, 2012. We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee for California and as the Blue Cross and Blue Shield, or BCBS, licensee for: Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as BCBS in 10 New York City metropolitan and surrounding counties, and as Blue Cross or BCBS in selected upstate counties only), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.), and Wisconsin. In a majority of these service areas we do business as Anthem Blue Cross, Anthem Blue Cross and Blue Shield, Blue Cross and Blue Shield of Georgia, Empire Blue Cross Blue Shield, or Empire Blue Cross (in our New York service areas). We also serve customers throughout the country as UniCare and in certain California, Arizona and Nevada markets through our CareMore Health Group, Inc., or CareMore, subsidiary. We are licensed to conduct insurance operations in all 50 states through our subsidiaries. We also sell contact lenses, eyeglasses and other ocular products through our recently acquired 1-800 CONTACTS, Inc., or 1-800 CONTACTS, subsidiary.

Operating revenue for the three months ended June 30, 2012 was $15,173.3, an increase of $293.5, or 2.0%, from the three months ended June 30, 2011, reflecting higher premium revenue in our Consumer segment, partially offset by lower premium revenue in our Commercial segment. The higher premiums in our Consumer segment primarily resulted from membership growth in our Senior Medicare Advantage business, including additional membership from our CareMore subsidiary, which was acquired in August 2011. The premium

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revenue decrease in the Commercial segment was driven primarily by fully insured membership declines in our Local Group and National Accounts businesses resulting from strategic product portfolio changes in certain markets, competitive pressure in certain markets and unfavorable economic conditions, partially offset by premium rate increases in our Local Group business designed to cover overall cost trends.

Operating revenue for the six months ended June 30, 2012 was $30,323.5, an increase of $788.9, or 2.7%, from the six months ended June 30, 2011, reflecting higher premium revenue in our Consumer segment, partially offset by lower premium revenue in our Commercial segment. The higher premiums in our Consumer segment primarily resulted from membership growth in our Senior Medicare Advantage business, including additional membership from our CareMore subsidiary. The premium revenue decrease in the Commercial segment was driven primarily by fully insured membership declines in our Local Group business resulting from strategic product portfolio changes in certain markets, competitive pressure in certain markets and unfavorable economic conditions, partially offset by premium rate increases in our Local Group business designed to cover overall cost trends.

Net income for the three months ended June 30, 2012 was $643.6, a decrease of $58.0, or 8.3%, from the three months ended June 30, 2011. This decrease in net income was primarily driven by non-tax deductible litigation settlement costs resulting in higher general and administrative expense and income tax expense, partially offset by higher operating gains in our Consumer and Commercial segments. For additional details, see Note 10, Commitments and Contingencies, to our unaudited consolidated financial statements included in Part 1, Item 1 of this Form 10-Q and Consolidated Results of Operations Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011 included in this MD&A. Our fully-diluted earnings per share, or EPS, was $1.94 for the three months ended June 30, 2012, which represents a 2.6% increase over the EPS of $1.89 for the three months ended June 30, 2011. The increase in EPS resulted primarily from the lower number of shares outstanding in 2012 due to share buyback activity under our share repurchase program, partially offset by the decline in net income.

Net income for the six months ended June 30, 2012 was $1,500.1, a decrease of $128.1, or 7.9%, from the six months ended June 30, 2011. This decrease in net income was primarily driven by non-tax deductible litigation settlement costs resulting in higher general and administrative expense and income tax expense and lower operating results in our Commercial segment, partially offset by improved operating results in our Consumer segment. For additional details, see Note 10, Commitments and Contingencies, to our unaudited consolidated financial statements included in Part 1, Item 1 of this Form 10-Q and Consolidated Results of Operations Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011 included in this MD&A. Our fully-diluted EPS was $4.48 for the six months ended June 30, 2012, which represents a 3.2% increase over the EPS of $4.34 for the six months ended June 30, 2011. The increase in EPS resulted primarily from the lower number of shares outstanding in 2012 due to share buyback activity under our share repurchase program, partially offset by the decline in net income.

Our results of operations discussed throughout this MD&A are determined in accordance with U.S. generally accepted accounting principles, or GAAP. We also calculate adjusted net income and adjusted EPS, which are non-GAAP measures, to further aid investors in understanding and analyzing our core operating results and comparing them among periods. Adjusted net income and adjusted EPS exclude realized gains and losses on investments, other-than-temporary losses on investments recognized in income and certain other items, if applicable, that we do not consider as part of our core operating results. Operating gain is calculated as total operating revenue less benefit expense, selling, general and administrative expense and cost of products. We use these measures as a basis for evaluating segment performance, allocating resources, setting incentive compensation targets and for forecasting future operating periods. This information is not intended to be considered in isolation or as a substitute for net income or diluted EPS prepared in accordance with GAAP, and may not be comparable to similarly titled measures reported by other companies. For additional details on operating gain, see our Consolidated Results of Operations discussion within this MD&A.

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The table below reconciles net income and EPS calculated in accordance with GAAP to adjusted net income and adjusted EPS for the three months ended June 30, 2012 and 2011.

	Three Months Ended June 30			
	2012	2011	Change	% Change
Net income	$ 643.6	$ 701.6	$ (58.0)	(8.3)%
Less:				
Net realized gains on investments	70.5	41.5	29.0	
Other-than-temporary impairment losses on investments	(5.9)	(8.4)	2.5	
Costs related to settlement of litigation matter	(34.0)		(34.0)	
Costs related to 1-800 CONTACTS closing and integration	(9.2)		(9.2)	
Tax effect of adjustments	(52.0)	(11.6)	(40.4)	
Adjusted net income	$ 674.2	$ 680.1	$ (5.9)	(0.9)%
EPS	$ 1.94	$ 1.89	$ 0.05	2.6%
Less:				
Net realized gains on investments	0.21	0.11	0.10	
Other-than-temporary impairment losses on investments	(0.02)	(0.02)		
Costs related to settlement of litigation matter	(0.10)		(0.10)	
Costs related to 1-800 CONTACTS closing and integration	(0.03)		(0.03)	
Tax effect of adjustments	(0.16)	(0.03)	(0.13)	
Adjusted EPS	$ 2.04	$ 1.83	$ 0.21	11.5%

The table below reconciles net income and EPS calculated in accordance with GAAP to adjusted net income and adjusted EPS for the six months ended June 30, 2012 and 2011.

	Six Months Ended June 30			
	2012	2011	Change	% Change
Net income	$ 1,500.1	$ 1,628.2	$ (128.1)	(7.9)%
Less:				
Net realized gains on investments	177.4	98.6	78.8	
Other-than-temporary impairment losses on investments	(16.8)	(10.8)	(6.0)	
Costs related to settlement of litigation matter	(90.0)		(90.0)	
Costs related to 1-800 CONTACTS closing and integration	(11.8)		(11.8)	
Tax effect of adjustments	(60.6)	(30.7)	(29.9)	
Adjusted net income	$ 1,501.9	$ 1,571.1	$ (69.2)	(4.4)%
EPS	$ 4.48	$ 4.34	$ 0.14	3.2%
Less:				
Net realized gains on investments	0.53	0.26	0.27	
Other-than-temporary impairment losses on investments	(0.05)	(0.03)	(0.02)	
Costs related to settlement of litigation matter	(0.27)		(0.27)	
Costs related to 1-800 CONTACTS closing and integration	(0.04)		(0.04)	
Tax effect of adjustments	(0.18)	(0.08)	(0.10)	
Adjusted EPS	$ 4.49	$ 4.19	$ 0.30	7.2%

Operating cash flow for the six months ended June 30, 2012 was $1,744.6, or 1.2 times net income. Operating cash flow for the six months ended June 30, 2011 was $1,886.7. The decrease in operating cash flow

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from 2011 of $142.1 was driven primarily by increased medical claim payments and lower net income, partially offset by the early receipt of premiums for the third quarter of 2012 related to government contracts as well as lower incentive compensation payments.

Significant Transactions

Acquisition of 1-800 CONTACTS

On June 20, 2012, we completed our acquisition of 1-800 CONTACTS, the largest direct-to-consumer retailer of contact lenses in the United States, whose model is built on providing a superior customer experience and a wide selection of products at affordable prices. The acquisition strategically aligns with our efforts to capitalize on new opportunities for growth, and diversifies our revenue stream into the complementary and higher-margin eyewear business. For additional information regarding this acquisition, see Note 3, Business Combinations, to our unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

Pending Acquisition of AMERIGROUP Corporation

On July 9, 2012, we announced that we had entered into a definitive agreement to acquire AMERIGROUP Corporation, or Amerigroup, one of the nation s leading managed care companies that is focused on meeting the health care needs of financially vulnerable Americans. This acquisition will further our goal of creating better health care quality at more affordable prices for our customers. It will also advance our capabilities to more effectively and efficiently serve the growing Medicaid population, including the expanding dual eligible, seniors, persons with disabilities and long-term services and support markets. Under the terms of the agreement, we will pay $92.00 per share in cash to acquire all of the outstanding shares of Amerigroup for an estimated transaction value of approximately $4,900.0. The acquisition is expected to close by the end of the first quarter of 2013 and is subject to certain state regulatory approvals, standard closing conditions, customary approvals required under the Hart-Scott-Rodino Antitrust Improvements Act and the approval of Amerigroup s stockholders.

Sources and Uses of Capital

We regularly review the appropriate sources and uses of capital, including debt borrowings, common stock repurchases and dividends to shareholders. The issuance of debt and the declaration and payment of any dividends or repurchases of our common stock are at the discretion of our Board of Directors and depend upon our financial condition, results of operations, future liquidity needs, regulatory and capital requirements and other factors deemed relevant by our Board of Directors.

For additional information regarding our sources and uses of capital during the three and six months ended June 30, 2012, see Note 9, Debt, and the Use of Capital Dividends and Stock Repurchase Program section of Note 11, Capital Stock, to our unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

Membership

Our medical membership includes seven different customer types: Local Group, Individual, National Accounts, BlueCard, Senior, State-Sponsored and FEP. BCBSA-branded business generally refers to members in our service areas licensed by the BCBSA. Non-BCBSA-branded business refers to UniCare members predominantly outside of our BCBSA service areas and Senior members from our CareMore subsidiary. For a more detailed description of our medical membership, see the Membership section of Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations included in our 2011 Annual Report on Form 10-K.

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The following table presents our medical membership by customer type, funding arrangement and reportable segment as of June 30, 2012 and 2011. Also included below is other membership by product. The medical membership and other membership presented are unaudited and in certain instances include estimates of the number of members represented by each contract at the end of the period.

	June 30			
(In thousands)	**2012**	**2011**	**Change**	**% Change**
Medical Membership				
Customer Type				
Local Group	14,612	15,197	(585)	(3.8)%
Individual	1,856	1,870	(14)	(0.7)
National:				
National Accounts	7,098	7,471	(373)	(5.0)
BlueCard	5,061	4,947	114	2.3
Total National	12,159	12,418	(259)	(2.1)
Senior	1,516	1,353	163	12.0
State-Sponsored	1,888	1,838	50	2.7
FEP	1,516	1,510	6	0.4
Total Medical Membership by Customer Type	33,547	34,186	(639)	(1.9)
Funding Arrangement				
Self-Funded	20,177	20,443	(266)	(1.3)
Fully-Insured	13,370	13,743	(373)	(2.7)
Total Medical Membership by Funding Arrangement	33,547	34,186	(639)	(1.9)
Reportable Segment				
Commercial	26,771	27,615		