

WELLPOINT, INC
Form 10-Q
July 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 001-16751

WELLPOINT, INC.

(Exact name of registrant as specified in its charter)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 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

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 11, 2013 |
|--------------------------------|-------------------------------------|
| Common Stock, \$0.01 par value | 298,960,354 shares |

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WellPoint, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2013

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WellPoint, Inc.****Consolidated Balance Sheets**

| <i>(In millions, except share data)</i> | June 30, 2013 | December 31, 2012 |
|---|--------------------------|------------------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,347.3 | \$ 2,484.6 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities (amortized cost of \$17,451.1 and \$16,033.1) | 17,679.8 | 16,912.9 |
| Equity securities (cost of \$933.7 and \$869.9) | 1,410.1 | 1,212.4 |
| Other invested assets, current | 15.7 | 14.8 |
| Accrued investment income | 172.4 | 162.2 |
| Premium and self-funded receivables | 4,330.0 | 3,687.4 |
| Other receivables | 994.1 | 928.8 |
| Income taxes receivable | 101.7 | 228.5 |
| Securities lending collateral | 670.4 | 564.6 |
| Deferred tax assets, net | 356.3 | 243.2 |
| Other current assets | 1,823.0 | 1,829.0 |
| Total current assets | 28,900.8 | 28,268.4 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities (amortized cost of \$466.2 and \$426.0) | 460.0 | 431.5 |
| Equity securities (cost of \$26.8 and \$27.1) | 30.2 | 30.1 |
| Other invested assets, long-term | 1,510.4 | 1,387.7 |
| Property and equipment, net | 1,769.5 | 1,738.3 |
| Goodwill | 17,488.6 | 17,510.5 |
| Other intangible assets | 8,988.1 | 9,102.8 |
| Other noncurrent assets | 464.7 | 486.1 |
| Total assets | \$ 59,612.3 | \$ 58,955.4 |
| Liabilities and shareholders equity | | |
| Liabilities | | |
| Current liabilities: | | |
| Policy liabilities: | | |
| Medical claims payable | \$ 6,158.3 | \$ 6,174.5 |
| Reserves for future policy benefits | 58.8 | 61.3 |
| Other policyholder liabilities | 2,288.9 | 2,345.7 |
| Total policy liabilities | 8,506.0 | 8,581.5 |
| Unearned income | 823.6 | 896.8 |
| Accounts payable and accrued expenses | 3,286.6 | 3,132.5 |
| Security trades pending payable | 152.8 | 69.3 |
| Securities lending payable | 670.6 | 564.7 |
| Short-term borrowings | 350.0 | 250.0 |
| Current portion of long-term debt | 399.6 | 557.1 |
| Other current liabilities | 1,844.9 | 1,785.0 |
| Total current liabilities | 16,034.1 | 15,836.9 |
| Long-term debt, less current portion | 14,091.5 | 14,170.8 |
| Reserves for future policy benefits, noncurrent | 687.6 | 750.8 |
| Deferred tax liabilities, net | 3,320.8 | 3,381.0 |
| Other noncurrent liabilities | 945.8 | 1,013.2 |

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| | | |
|---|-------------|-------------|
| Total liabilities | 35,079.8 | 35,152.7 |
| Commitment and contingencies Note 9 | | |
| 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: 299,346,446 and 304,715,144 | 3.0 | 3.0 |
| Additional paid-in capital | 10,738.8 | 10,853.5 |
| Retained earnings | 13,817.9 | 12,647.1 |
| Accumulated other comprehensive (loss) income | (27.2) | 299.1 |
| Total shareholders equity | 24,532.5 | 23,802.7 |
| Total liabilities and shareholders equity | \$ 59,612.3 | \$ 58,955.4 |

See accompanying notes.

Table of Contents**WellPoint, Inc.****Consolidated Statements of Income**

(Unaudited)

| <i>(In millions, except per share data)</i> | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------------|------------------|-------------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | |
| Premiums | \$ 16,493.0 | \$ 14,161.0 | \$ 32,928.6 | \$ 28,299.5 |
| Administrative fees | 988.5 | 977.5 | 1,978.6 | 1,973.3 |
| Other revenue | 115.7 | 34.8 | 236.3 | 50.7 |
| Total operating revenue | 17,597.2 | 15,173.3 | 35,143.5 | 30,323.5 |
| Net investment income | 153.2 | 169.4 | 315.2 | 338.4 |
| Net realized gains on investments | 54.2 | 70.5 | 71.0 | 177.4 |
| Other-than-temporary impairment losses on investments: | | | | |
| Total other-than-temporary impairment losses on investments | (9.0) | (6.5) | (46.9) | (20.2) |
| Portion of other-than-temporary impairment losses recognized in other comprehensive income | | 0.6 | | 3.4 |
| Other-than-temporary impairment losses recognized in income | (9.0) | (5.9) | (46.9) | (16.8) |
| Total revenues | 17,795.6 | 15,407.3 | 35,482.8 | 30,822.5 |
| Expenses | | | | |
| Benefit expense | 13,832.6 | 12,093.1 | 27,581.3 | 23,865.0 |
| Selling, general and administrative expense: | | | | |
| Selling expense | 376.7 | 393.0 | 762.6 | 786.3 |
| General and administrative expense | 2,093.8 | 1,688.8 | 4,072.9 | 3,461.2 |
| Total selling, general and administrative expense | 2,470.5 | 2,081.8 | 4,835.5 | 4,247.5 |
| Cost of products | 62.4 | 6.7 | 127.4 | 6.7 |
| Interest expense | 151.9 | 117.6 | 305.4 | 226.7 |
| Amortization of other intangible assets | 67.7 | 59.5 | 135.6 | 118.2 |
| Total expenses | 16,585.1 | 14,358.7 | 32,985.2 | 28,464.1 |
| Income before income tax expense | 1,210.5 | 1,048.6 | 2,497.6 | 2,358.4 |
| Income tax expense | 410.4 | 405.0 | 812.3 | 858.3 |
| Net income | \$ 800.1 | \$ 643.6 | \$ 1,685.3 | \$ 1,500.1 |
| Net income per share | | | | |
| Basic | \$ 2.67 | \$ 1.96 | \$ 5.59 | \$ 4.53 |
| Diluted | \$ 2.64 | \$ 1.94 | \$ 5.53 | \$ 4.48 |
| Dividends per share | \$ 0.3750 | \$ 0.2875 | \$ 0.7500 | \$ 0.5750 |

See accompanying notes.

Table of Contents**WellPoint, Inc.****Consolidated Statements of Comprehensive Income**

(Unaudited)

| <i>(In millions)</i> | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---------------------------------------|-------------|-------------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 800.1 | \$ 643.6 | \$ 1,685.3 | \$ 1,500.1 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Change in net unrealized gains/losses on investments | (377.8) | (27.1) | (343.3) | 80.2 |
| Change in non-credit component of other-than-temporary impairment losses on investments | | (0.4) | 2.2 | 4.4 |
| Change in net unrealized gains/losses on cash flow hedges | 0.8 | (0.2) | 1.5 | 0.4 |
| Change in net periodic pension and postretirement costs | 7.0 | 6.3 | 13.8 | 13.0 |
| Foreign currency translation adjustments | 0.3 | (1.4) | (0.5) | (0.7) |
| Other comprehensive (loss) income | (369.7) | (22.8) | (326.3) | 97.3 |
| Total comprehensive income | \$ 430.4 | \$ 620.8 | \$ 1,359.0 | \$ 1,597.4 |

See accompanying notes.

Table of Contents**WellPoint, Inc.****Consolidated Statements of Cash Flows**

(Unaudited)

| <i>(In millions)</i> | Six Months Ended June 30 | |
|--|-------------------------------------|------------------|
| | 2013 | 2012 |
| Operating activities | | |
| Net income | \$ 1,685.3 | \$ 1,500.1 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized gains on investments | (71.0) | (177.4) |
| Other-than-temporary impairment losses recognized in income | 46.9 | 16.8 |
| Loss on disposal of assets | 2.4 | 1.6 |
| Deferred income taxes | 14.4 | 87.6 |
| Amortization, net of accretion | 389.6 | 313.3 |
| Depreciation expense | 50.4 | 47.4 |
| Share-based compensation | 63.1 | 71.5 |
| Excess tax benefits from share-based compensation | (13.8) | (22.7) |
| Changes in operating assets and liabilities, net of effect of business combinations: | | |
| Receivables, net | (619.7) | (466.9) |
| Other invested assets | (9.0) | (14.4) |
| Other assets | 27.7 | (77.3) |
| Policy liabilities | (138.7) | (101.9) |
| Unearned income | (73.2) | 781.3 |
| Accounts payable and accrued expenses | (63.8) | (380.4) |
| Other liabilities | (15.4) | 187.5 |
| Income taxes | 134.4 | (3.6) |
| Other, net | (27.5) | (17.9) |
| Net cash provided by operating activities | 1,382.1 | 1,744.6 |
| Investing activities | | |
| Purchases of fixed maturity securities | (6,821.7) | (7,278.9) |
| Proceeds from fixed maturity securities: | | |
| Sales | 4,462.8 | 5,449.4 |
| Maturities, calls and redemptions | 802.5 | 875.7 |
| Purchases of equity securities | (150.6) | (186.6) |
| Proceeds from sales of equity securities | 144.7 | 276.1 |
| Purchases of other invested assets | (164.4) | (95.8) |
| Proceeds from sales of other invested assets | 22.6 | 18.7 |
| Changes in securities lending collateral | (106.0) | 106.1 |
| Purchases of subsidiaries, net of cash acquired | | (905.3) |
| Purchases of property and equipment | (249.5) | (226.0) |
| Proceeds from sales of property and equipment | | 0.3 |
| Other, net | (3.8) | (0.9) |
| Net cash used in investing activities | (2,063.4) | (1,967.2) |
| Financing activities | | |
| Net proceeds from (repayments of) commercial paper borrowings | 351.0 | (10.5) |
| Proceeds from long-term borrowings | | 1,722.9 |
| Repayments of long-term borrowings | (556.9) | (451.1) |
| Proceeds from short-term borrowings | 100.0 | 300.0 |
| Repayments of short-term borrowings | | (200.0) |
| Changes in securities lending payable | 105.9 | (106.1) |
| Changes in bank overdrafts | 219.3 | (23.9) |
| Repurchase and retirement of common stock | (615.5) | (1,173.6) |
| Cash dividends | (226.1) | (189.3) |
| Proceeds from issuance of common stock under employee stock plans | 153.3 | 83.7 |
| Excess tax benefits from share-based compensation | 13.8 | 22.7 |

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| | | |
|--|------------|------------|
| Net cash used in financing activities | (455.2) | (25.2) |
| Effect of foreign exchange rates on cash and cash equivalents | (0.8) | (0.7) |
| Change in cash and cash equivalents | (1,137.3) | (248.5) |
| Cash and cash equivalents at beginning of period | 2,484.6 | 2,201.6 |
| Cash and cash equivalents at end of period | \$ 1,347.3 | \$ 1,953.1 |

See accompanying notes.

Table of Contents**WellPoint, Inc.****Consolidated Statements of Shareholders Equity**

(Unaudited)

| | Common Stock | | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | | Total Shareholders Equity |
|--|------------------|-----------|----------------------------|-------------------|---|-------------|---------------------------|
| | Number of Shares | Par Value | Additional Paid-in Capital | | | | |
| <i>(In millions)</i> | | | | | | | |
| January 1, 2013 | 304.7 | \$ 3.0 | \$ 10,853.5 | \$ 12,647.1 | \$ 299.1 | \$ 23,802.7 | |
| Net income | | | | 1,685.3 | | 1,685.3 | |
| Other comprehensive loss | | | | | (326.3) | (326.3) | |
| Repurchase and retirement of common stock | (9.1) | | (332.4) | (286.4) | | (618.8) | |
| Convertible debenture tax adjustment | | | (4.0) | | | (4.0) | |
| Dividends and dividend equivalents | | | | (228.1) | | (228.1) | |
| Issuance of common stock under employee stock plans, net of related tax benefits | 3.7 | | 221.7 | | | 221.7 | |
| June 30, 2013 | 299.3 | \$ 3.0 | \$ 10,738.8 | \$ 13,817.9 | \$ (27.2) | \$ 24,532.5 | |
| 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 | |

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2013

(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 35.7 medical members through our affiliated health plans and approximately 68.0 individuals through all subsidiaries as of June 30, 2013. We offer a broad spectrum of network-based managed care plans to large and small employer, individual, Medicaid and Medicare 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 1-800 CONTACTS, Inc., or 1-800 CONTACTS, business.

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). Through our AMERIGROUP Corporation subsidiary, or Amerigroup, we conduct business in Florida, Georgia, Kansas, Louisiana, Maryland, Nevada, New Jersey, New Mexico, New York, Tennessee, Texas and Washington. Amerigroup also provided services to the state of Ohio through June 30, 2013. We also serve customers throughout the country as HealthLink, UniCare and in certain Arizona, California, Nevada, New York and Virginia 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 annual financial statements. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2012 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, 2013 and 2012 have been recorded. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. These

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unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2012 included in our 2012 Annual Report on Form 10-K.

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, including the presentation of our segment disclosures.

3. Restructuring Activities

As a result of restructuring activities implemented during 2012 and 2011, 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 2012 restructuring activities were initiated primarily as a result of personnel changes, organizational realignment to create efficiencies in our business processes and certain integration activities associated with the Amerigroup acquisition. Activity related to these liabilities for the six months ended June 30, 2013, by reportable segment, is as follows:

| | Commercial and Specialty Business | Government Business | Other | Total |
|--|---|------------------------|--------|----------|
| 2012 Restructuring Activities | | | | |
| Employee termination costs: | | | | |
| Liability for employee termination costs at January 1, 2013 | \$ 60.0 | \$ 54.7 | \$ 2.9 | \$ 117.6 |
| Payments | (22.4) | (29.4) | (1.1) | (52.9) |
| Liability released | (4.4) | (1.1) | (0.2) | (5.7) |
| Liability for employee termination costs at June 30, 2013 | 33.2 | 24.2 | 1.6 | 59.0 |
| Lease and other contract exit costs: | | | | |
| Liability for lease and other contract exit costs at January 1, 2013 | 8.8 | 2.9 | 0.1 | 11.8 |
| Payments | (4.4) | (1.5) | (0.1) | (6.0) |
| Liability released | (0.6) | (0.2) | | (0.8) |
| Liability for lease and other contract exit costs at June 30, 2013 | 3.8 | 1.2 | | 5.0 |
| Total liability for 2012 restructuring activities at June 30, 2013 | \$ 37.0 | \$ 25.4 | \$ 1.6 | \$ 64.0 |

The 2011 restructuring activities were initiated as a result of a change in strategic focus primarily in response to federal health care reform. At June 30, 2013, our total liability for 2011 restructuring activities was \$20.1, of which \$2.9 related to employee termination costs and \$17.2 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 2013. Payments for lease and other contract exit costs will continue to occur over the remaining terms of the related contracts.

4. 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 \$9.0 and \$5.9 for the three months ended June 30, 2013 and 2012, respectively. Other-than-temporary impairment losses recognized in

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income totaled \$46.9 and \$16.8 for the six months ended June 30, 2013 and 2012, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three and six months ended June 30, 2013 and 2012. 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.

A summary of current and long-term investments, available-for-sale, at June 30, 2013 and December 31, 2012 is as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | Non-Credit Component of Other-Than-Temporary Impairments Recognized in AOCI |
|---|------------------------|------------------------|-------------------------|----------------------|----------------------|---|
| | | | Less than 12 Months | 12 Months or Greater | | |
| June 30, 2013: | | | | | | |
| Fixed maturity securities: | | | | | | |
| United States Government securities | \$ 434.5 | \$ 4.7 | \$ (2.9) | \$ | \$ 436.3 | \$ |
| Government sponsored securities | 165.2 | 0.8 | (1.5) | | 164.5 | |
| States, municipalities and political subdivisions, tax-exempt | 5,995.5 | 234.1 | (99.7) | (1.8) | 6,128.1 | |
| Corporate securities | 8,078.1 | 211.5 | (142.2) | (9.3) | 8,138.1 | |
| Options embedded in convertible debt securities | 73.9 | | | | 73.9 | |
| Residential mortgage-backed securities | 2,412.1 | 59.6 | (39.8) | (0.8) | 2,431.1 | |
| Commercial mortgage-backed securities | 419.0 | 12.8 | (3.4) | | 428.4 | |
| Other debt securities | 339.0 | 5.2 | (2.9) | (1.9) | 339.4 | |
| Total fixed maturity securities | 17,917.3 | 528.7 | (292.4) | (13.8) | 18,139.8 | \$ |
| Equity securities | 960.5 | 487.5 | (7.7) | | 1,440.3 | |
| Total investments, available-for-sale | \$ 18,877.8 | \$ 1,016.2 | \$ (300.1) | \$ (13.8) | \$ 19,580.1 | |
| December 31, 2012: | | | | | | |
| Fixed maturity securities: | | | | | | |
| United States Government securities | \$ 330.3 | \$ 13.1 | \$ (0.2) | \$ | \$ 343.2 | \$ |
| Government sponsored securities | 153.6 | 2.6 | | | 156.2 | |
| States, municipalities and political subdivisions, tax-exempt | 5,501.3 | 388.2 | (5.7) | (1.6) | 5,882.2 | |
| Corporate securities | 7,642.0 | 387.0 | (17.0) | (8.0) | 8,004.0 | (1.7) |
| Options embedded in convertible debt securities | 67.2 | | | | 67.2 | |
| Residential mortgage-backed securities | 2,204.7 | 103.1 | (1.1) | (1.9) | 2,304.8 | (0.4) |
| Commercial mortgage-backed securities | 323.2 | 22.5 | | | 345.7 | |
| Other debt securities | 236.8 | 7.6 | (0.2) | (3.1) | 241.1 | (1.3) |
| Total fixed maturity securities | 16,459.1 | 924.1 | (24.2) | (14.6) | 17,344.4 | \$ (3.4) |
| Equity securities | 897.0 | 358.0 | (12.5) | | 1,242.5 | |
| Total investments, available-for-sale | \$ 17,356.1 | \$ 1,282.1 | \$ (36.7) | \$ (14.6) | \$ 18,586.9 | |

At June 30, 2013, we owned \$2,859.5 of mortgage-backed securities and \$316.3 of asset-backed securities out of a total available-for-sale investment portfolio of \$19,580.1. These securities included sub-prime and Alt-A securities with fair values of \$36.2 and \$117.9, respectively.

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These sub-prime and Alt-A securities had accumulated net unrealized gains of \$0.6 and \$6.9, respectively. The average credit rating of the sub-prime and Alt-A securities was BB and CCC, respectively.

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The following tables summarize for fixed maturity securities and equity securities in an unrealized loss position at June 30, 2013 and December 31, 2012, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

| | Less than 12 Months | | | 12 Months or Greater | | |
|---|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss |
| <i>(Securities are whole amounts)</i> | | | | | | |
| June 30, 2013: | | | | | | |
| Fixed maturity securities: | | | | | | |
| United States Government securities | 32 | \$ 278.5 | \$ (2.9) | | \$ | \$ |
| Government sponsored securities | 22 | 75.2 | (1.5) | | | |
| States, municipalities and political subdivisions, tax-exempt | 793 | 2,131.0 | (99.7) | 22 | 23.6 | (1.8) |
| Corporate securities | 1,827 | 3,989.4 | (142.2) | 52 | 45.6 | (9.3) |
| Residential mortgage-backed securities | 560 | 1,239.2 | (39.8) | 35 | 14.5 | (0.8) |
| Commercial mortgage-backed securities | 40 | 164.5 | (3.4) | 3 | 1.4 | |
| Other debt securities | 50 | 152.1 | (2.9) | 20 | 22.6 | (1.9) |
| Total fixed maturity securities | 3,324 | 8,029.9 | (292.4) | 132 | 107.7 | (13.8) |
| Equity securities | 686 | 80.9 | (7.7) | | | |
| Total fixed maturity and equity securities | 4,010 | \$ 8,110.8 | \$ (300.1) | 132 | \$ 107.7 | \$ (13.8) |
| December 31, 2012: | | | | | | |
| Fixed maturity securities: | | | | | | |
| United States Government securities | 17 | \$ 48.5 | \$ (0.2) | | \$ | \$ |
| States, municipalities and political subdivisions, tax-exempt | 184 | 420.1 | (5.7) | 1 | 46.9 | (1.6) |
| Corporate securities | 457 | 1,066.5 | (17.0) | 74 | 52.6 | (8.0) |
| Residential mortgage-backed securities | 79 | 211.0 | (1.1) | 44 | 25.5 | (1.9) |
| Commercial mortgage-backed securities | 4 | 10.1 | | 3 | 4.1 | |
| Other debt securities | 7 | 5.4 | (0.2) | 21 | 28.9 | (3.1) |
| Total fixed maturity securities | 748 | 1,761.6 | (24.2) | 143 | 158.0 | (14.6) |
| Equity securities | 961 | 149.6 | (12.5) | | | |
| Total fixed maturity and equity securities | 1,709 | \$ 1,911.2 | \$ (36.7) | 143 | \$ 158.0 | \$ (14.6) |

The amortized cost and fair value of fixed maturity securities at June 30, 2013, 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.

| | Amortized Cost | Estimated Fair Value |
|--|----------------|----------------------|
| Due in one year or less | \$ 884.5 | \$ 896.2 |
| Due after one year through five years | 4,993.9 | 5,125.3 |
| Due after five years through ten years | 5,181.8 | 5,267.4 |
| Due after ten years | 4,026.0 | 3,991.4 |
| Mortgage-backed securities | 2,831.1 | 2,859.5 |
| Total available-for-sale fixed maturity securities | \$ 17,917.3 | \$ 18,139.8 |

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Proceeds from fixed maturity and equity securities and the related gross realized gains and gross realized losses for the three and six months ended June 30, 2013 and 2012 are as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-----------------------|-------------------------------|------------|-----------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Proceeds | \$ 2,300.0 | \$ 3,228.4 | \$ 5,410.0 | \$ 6,601.2 |
| Gross realized gains | 71.9 | 98.9 | 178.9 | 255.1 |
| Gross realized losses | (17.7) | (28.4) | (107.9) | (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.

5. 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 Financial Accounting Standards Board, or 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

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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 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 and liabilities measured at fair value on a recurring basis at June 30, 2013 and December 31, 2012 is as follows:

| | Level I | Level II | Level III | Total |
|--|-------------------|--------------------|-----------------|--------------------|
| June 30, 2013: | | | | |
| Assets: | | | | |
| Cash equivalents | \$ 622.3 | \$ | \$ | \$ 622.3 |
| Investments available-for-sale: | | | | |
| Fixed maturity securities: | | | | |
| United States Government securities | 436.3 | | | 436.3 |
| Government sponsored securities | | 164.5 | | 164.5 |
| States, municipalities and political subdivisions, tax-exempt | | 6,128.1 | | 6,128.1 |
| Corporate securities | | 7,998.9 | 139.2 | 8,138.1 |
| Options embedded in convertible debt securities | | 73.9 | | 73.9 |
| Residential mortgage-backed securities | | 2,418.5 | 12.6 | 2,431.1 |
| Commercial mortgage-backed securities | | 428.4 | | 428.4 |
| Other debt securities | 23.8 | 310.2 | 5.4 | 339.4 |
| Total fixed maturity securities | 460.1 | 17,522.5 | 157.2 | 18,139.8 |
| Equity securities | 1,222.5 | 182.0 | 35.8 | 1,440.3 |
| Other invested assets, current | 15.7 | | | 15.7 |
| Securities lending collateral | 350.6 | 319.8 | | 670.4 |
| Derivatives excluding embedded options (reported with other assets) | | 40.4 | | 40.4 |
| Total assets | \$ 2,671.2 | \$ 18,064.7 | \$ 193.0 | \$ 20,928.9 |
| Liabilities: | | | | |
| Derivatives excluding embedded options (reported with other liabilities) | \$ | \$ (18.1) | \$ | \$ (18.1) |
| Total liabilities | \$ | \$ (18.1) | \$ | \$ (18.1) |
| December 31, 2012: | | | | |
| Assets: | | | | |
| Cash equivalents | \$ 728.3 | \$ | \$ | \$ 728.3 |
| Investments available-for-sale: | | | | |
| Fixed maturity securities: | | | | |
| United States Government securities | 343.2 | | | 343.2 |
| Government sponsored securities | | 156.2 | | 156.2 |
| States, municipalities and political subdivisions, tax-exempt | | 5,882.2 | | 5,882.2 |
| Corporate securities | | 7,882.9 | 121.1 | 8,004.0 |
| Options embedded in convertible debt securities | | 67.2 | | 67.2 |
| Residential mortgage-backed securities | | 2,300.5 | 4.3 | 2,304.8 |
| Commercial mortgage-backed securities | | 345.7 | | 345.7 |
| Other debt securities | 33.8 | 203.4 | 3.9 | 241.1 |
| Total fixed maturity securities | 377.0 | 16,838.1 | 129.3 | 17,344.4 |
| Equity securities | 1,103.1 | 113.2 | 26.2 | 1,242.5 |
| Other invested assets, current | 14.8 | | | 14.8 |
| Securities lending collateral | 231.7 | 332.9 | | 564.6 |
| Derivatives excluding embedded options (reported with other assets) | | 58.6 | | 58.6 |
| Total assets | \$ 2,454.9 | \$ 17,342.8 | \$ 155.5 | \$ 19,953.2 |
| Liabilities: | | | | |

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| | | | | | | |
|--|----|----|-------|----|----|-------|
| Derivatives excluding embedded options (reported with other liabilities) | \$ | \$ | (0.1) | \$ | \$ | (0.1) |
| Total liabilities | \$ | \$ | (0.1) | \$ | \$ | (0.1) |

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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, 2013 and 2012 is as follows:

| | Corporate Securities | Residential Mortgage- backed Securities | Commercial Mortgage- backed Securities | Other Debt Securities | Equity Securities | Total |
|--|-------------------------|--|---|--------------------------|----------------------|----------|
| Three Months Ended June 30, 2013: | | | | | | |
| Beginning balance at April 1, 2013 | \$ 121.3 | \$ 12.9 | \$ | \$ 3.9 | \$ 23.8 | \$ 161.9 |
| Total gains (losses): | | | | | | |
| Recognized in net income | (1.4) | | | | (1.6) | (3.0) |
| Recognized in accumulated other comprehensive income | (2.5) | | | 0.1 | 8.1 | 5.7 |
| Purchases | 29.3 | | | 1.6 | 5.5 | 36.4 |
| Sales | | | | | | |
| Issues | | | | | | |
| Settlements | (0.8) | (0.3) | | (0.2) | | (1.3) |
| Transfers into Level III | | | | | | |
| Transfers out of Level III | (6.7) | | | | | (6.7) |
| Ending balance at June 30, 2013 | \$ 139.2 | \$ 12.6 | \$ | \$ 5.4 | \$ 35.8 | \$ 193.0 |
| Change in unrealized losses included in net income related to assets still held for the three months ended June 30, 2013 | \$ (1.6) | \$ | \$ | \$ | \$ (1.6) | \$ (3.2) |
| 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 | \$ | \$ | \$ | \$ | \$ | \$ |

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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, 2013 and 2012 is as follows:

| | Corporate Securities | Residential Mortgage- backed Securities | Commercial Mortgage- backed Securities | Other Debt Securities | Equity Securities | Total |
|--|-------------------------|--|---|--------------------------|----------------------|----------|
| Six Months Ended June 30, 2013: | | | | | | |
| Beginning balance at January 1, 2013 | \$ 121.1 | \$ 4.3 | \$ | \$ 3.9 | \$ 26.2 | \$ 155.5 |
| Total gains (losses): | | | | | | |
| Recognized in net income | (1.1) | | | | (1.0) | (2.1) |
| Recognized in accumulated other comprehensive income | (3.1) | | | 0.3 | 7.2 | 4.4 |
| Purchases | 38.9 | | | 1.6 | 5.9 | 46.4 |
| Sales | | | | | (2.5) | (2.5) |
| Issues | | | | | | |
| Settlements | (9.9) | (1.9) | | (0.4) | | (12.2) |
| Transfers into Level III | | 13.1 | | | | 13.1 |
| Transfers out of Level III | (6.7) | (2.9) | | | | (9.6) |
| Ending balance at June 30, 2013 | \$ 139.2 | \$ 12.6 | \$ | \$ 5.4 | \$ 35.8 | \$ 193.0 |
| Change in unrealized losses included in net income related to assets still held for the six months ended June 30, 2013 | \$ (1.6) | \$ | \$ | \$ | \$ (3.0) | \$ (4.6) |
| 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) |

Transfers between levels, if any, are recorded as of the beginning of the reporting period. There were no material transfers into or out of Level III during the six months ended June 30, 2013. 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 securities 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, 2013 and 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 assets or liabilities measured at fair value on a nonrecurring basis during the three and six months ended June 30, 2013. During the three and six months ended June 30, 2012 we recorded the fair value of net assets acquired and resulting goodwill and other intangible assets related to our 1-800 CONTACTS acquisition using Level III inputs. Other than the 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.

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, 2013 or 2012.

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, 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. Investments in limited partnerships, joint ventures and other non-controlled corporations are carried at our share in the entities undistributed earnings, which approximates fair value. The carrying value of corporate-owned life insurance policies represents 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.

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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: 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.

Long-term debt convertible debentures: The fair value of our convertible debentures is based on the quoted market price in the active private market in which the convertible debentures trade.

A summary of the carrying values and fair values by level of financial instruments not recorded at fair value on our consolidated balance sheet at June 30, 2013 and December 31, 2012 are as follows:

| | Carrying Value | Level I | Level II | Fair Value Level III | Total |
|----------------------------------|-------------------|---------|----------|-------------------------|------------|
| June 30, 2013 | | | | | |
| Assets: | | | | | |
| Other invested assets, long-term | \$ 1,510.4 | \$ | \$ | \$ 1,510.4 | \$ 1,510.4 |
| Liabilities: | | | | | |
| Debt: | | | | | |
| Short-term borrowings | 350.0 | | 350.0 | | 350.0 |
| Commercial paper | 921.9 | | 921.9 | | 921.9 |
| Notes | 12,607.2 | | 13,117.6 | | 13,117.6 |
| Convertible debentures | 962.0 | | 1,867.5 | | 1,867.5 |
| December 31, 2012 | | | | | |
| Assets: | | | | | |
| Other invested assets, long-term | \$ 1,387.7 | \$ | \$ | \$ 1,387.7 | \$ 1,387.7 |
| Liabilities: | | | | | |
| Debt: | | | | | |
| Short-term borrowings | 250.0 | | 250.0 | | 250.0 |
| Commercial paper | 570.9 | | 570.9 | | 570.9 |
| Notes | 13,198.9 | | 14,407.1 | | 14,407.1 |
| Convertible debentures | 958.1 | | 1,613.4 | | 1,613.4 |

6. Income Taxes

During the three months ended June 30, 2013 and 2012, we recognized income tax expense of \$410.4 and \$405.0, respectively, which represents effective tax rates of 33.9% and 38.6%, respectively. The increase in income tax expense was due to increased income before income tax expense, partially offset by the impact of a lower effective rate in 2013. The 2013 effective tax rate includes benefits resulting from the deductibility of certain executive compensation costs previously disallowed under health care reform legislation and from continuing decreases in our state apportionment factors calculation, which produces a lower effective state tax rate. The 2012 effective tax rate reflects the non-tax deductibility of litigation settlement expenses associated with the settlement of the *Ormond* class action lawsuit in June 2012.

During the six months ended June 30, 2013 and 2012, we recognized income tax expense of \$812.3 and \$858.3, respectively, which represents effective tax rates of 32.5% and 36.4%, respectively. The decrease in income tax expense was due to a lower effective rate in 2013, partially offset by increased income before income tax expense. The 2013 effective tax rate includes benefits resulting from the deductibility of certain executive compensation costs previously disallowed under health care reform legislation and from inclusion of Amerigroup in our state apportionment factors calculation, which produces a lower effective state tax rate. The 2012 effective tax rate reflects the non-tax deductibility of litigation settlement expenses associated with the settlement of the *Ormond* class action lawsuit in June 2012.

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For additional information regarding the settlement of the *Ormond* class action lawsuit in June 2012, see Note 9, Commitments and Contingencies.

7. Retirement Benefits

The components of net periodic benefit (credit) cost included in the consolidated statements of income for the three months ended June 30, 2013 and 2012 are as follows:

| | Pension Benefits | | Other Benefits | |
|--------------------------------------|------------------|--------|----------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | \$ 3.7 | \$ 4.0 | \$ 1.7 | \$ 1.7 |
| Interest cost | 16.7 | 19.2 | 5.6 | 6.9 |
| Expected return on assets | (33.3) | (33.6) | (5.5) | (5.3) |
| Recognized actuarial loss | 8.5 | 7.6 | 2.8 | 3.7 |
| Settlement loss | 3.7 | 3.0 | | |
| Amortization of prior service credit | (0.2) | (0.2) | (3.4) | (3.4) |
| Net periodic benefit (credit) cost | \$ (0.9) | \$ | \$ 1.2 | \$ 3.6 |

The components of net periodic benefit (credit) cost included in the consolidated statements of income for the six months ended June 30, 2013 and 2012 are as follows:

| | Pension Benefits | | Other Benefits | |
|--------------------------------------|------------------|--------|----------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | \$ 7.3 | \$ 8.2 | \$ 3.4 | \$ 3.4 |
| Interest cost | 33.4 | 38.3 | 11.2 | 13.8 |
| Expected return on assets | (66.6) | (67.3) | (11.0) | (10.5) |
| Recognized actuarial loss | 17.1 | 15.2 | 5.6 | 7.1 |
| Settlement loss | 7.1 | 6.6 | | |
| Amortization of prior service credit | (0.4) | (0.4) | (6.7) | (6.7) |
| Net periodic benefit (credit) cost | \$ (2.1) | \$ 0.6 | \$ 2.5 | \$ 7.1 |

For the year ending December 31, 2013, 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 six months ended June 30, 2013 and 2012.

8. Debt

As a result of our acquisition of Amerigroup on December 24, 2012, the carrying amount of Amerigroup's \$475.0 of 7.500% senior unsecured notes due 2019 was included in our consolidated balance sheet as of December 31, 2012. In accordance with FASB accounting guidance for business combinations, the notes were recorded at their estimated fair value of \$556.9 on the date of acquisition. On January 25, 2013 we redeemed the outstanding principal balance of these notes, plus applicable premium for early redemption, for cash totaling \$555.6. The weighted-average redemption price of the notes was approximately 117% of the principal amount outstanding.

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, 2013 or at any time during the three and six months then ended.

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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, 2013, we had \$921.9 outstanding under this program.

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We have issued senior convertible debentures due 2042, or the Debentures, which are governed by an indenture between us and The Bank of New York Mellon Trust Company, N.A., as trustee. We have accounted for the Debentures in accordance with the FASB cash conversion guidance for debt with conversion and other options. As a result, the value of the embedded conversion option has been bifurcated from its debt host and recorded as a component of additional paid-in capital (net of deferred taxes and equity issuance costs) in our consolidated balance sheets. The following table summarizes at June 30, 2013 the related balances, conversion rate and conversion price of the Debentures:

| | |
|--|------------|
| Outstanding principal amount | \$ 1,500.0 |
| Unamortized debt discount | 538.0 |
| Net debt carrying amount | 962.0 |
| Equity component carrying amount | 543.6 |
| Conversion rate (shares of common stock per \$1,000 of principal amount) | 13.2658 |
| Effective conversion price (per \$1,000 of principal amount) | \$ 75.3815 |

9. 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 defended 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 named 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 alleged unfair business practices and 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 requested two thousand five hundred dollars (\$2,500) per alleged violation of the California Business and Professions Code. The lawsuit was recently settled for \$6.0. The court entered final approval of the settlement and judgment on July 10, 2013.

We are defending a certified class action filed as a result of the 2001 demutualization of Anthem Insurance Companies, Inc., or AICI. The lawsuit names AICI as well as Anthem, Inc., or Anthem, n/k/a WellPoint, Inc., and is captioned *Ronald Gold, 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. Plaintiffs in *Gold* allege that AICI distributed value to the wrong ESMs. 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. We and the plaintiffs filed renewed cross-motions for summary judgment on January 24, 2013. Argument on the renewed

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motions was held on April 19, 2013. We intend to vigorously defend the *Gold* lawsuit; however, its ultimate outcome cannot be presently determined. In 2012, we settled a separate lawsuit captioned *Mary E. Ormond, et al. v. Anthem, Inc., et al.*, also filed as a result of the 2001 demutualization of AICI. The *Ormond* case involves a certified class that consists of all ESMs residing in Ohio, Indiana, Kentucky or Connecticut who received cash compensation in connection with the demutualization. On July 1, 2011, 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. initial public offering. 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. A final fairness hearing on the settlement was held on October 25, 2012. On November 16, 2012, the Court granted plaintiffs' motion and entered an amended final order approving the settlement. An award of attorneys' fees was issued on November 20, 2012, together with a final judgment dismissing all of plaintiffs' claims. The two appeals of the court's final orders that were taken by objectors to the United States Court of Appeals for the Seventh Circuit have been resolved. The appeals involved challenges to (i) the amount of attorneys' fees awarded to plaintiffs' counsel out of the settlement fund and (ii) the provision of the Court's order granting final approval of the settlement that requires any residual settlement funds remaining after two rounds of distributions to class members to be paid to the Eskanazi Health Foundation as a *cy pres* award.

We are currently a defendant in eleven putative class actions relating to out-of-network, or 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, which 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 then 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 most of the claims in the third amended consolidated complaint, which was granted in part and denied in part. The plaintiffs filed a fourth amended consolidated complaint on November 5, 2012. We filed a motion to dismiss most of the claims asserted in the fourth amended consolidated complaint. The plaintiffs filed a response and we filed a reply. The OON surgical center voluntarily dismissed its claims. A hearing on our motion to dismiss was held in June 2013. On July 19, 2013 the court issued an order granting in part and denying in part our motion. The court held that the state and federal anti-trust claims along with the RICO claims should be dismissed in their entirety with prejudice. The court further found that the ERISA claims, to the extent they involved non-Ingenux methodologies along with those that involved our alleged non-disclosures should be dismissed with prejudice. The court also dismissed most of the plaintiffs' state law claims with prejudice. The only claims that remain after the court's decision are an ERISA benefits claim relating to claims priced based on Ingenix, a breach of contract claim on behalf of one subscriber plaintiff, a breach of implied covenant claim on behalf of one plaintiff, and one subscriber plaintiff's claim under the California Unfair Competition Law. Fact discovery is complete. At the end of 2009, we filed a motion in the United States District Court for the Southern District of

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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 and sanctioned them on July 25, 2012. The barred physicians are paying the sanctions and have appealed the Florida Court's sanctions order to the Eleventh Circuit. Oral argument on that appeal is expected to take place in October. 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 \$350.0 at June 30, 2013. 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, 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 denied the Insurance Commissioner's petition for the liquidation of Penn Treaty and ordered the Insurance Commissioner to file an updated plan of rehabilitation, which proposed plan was filed on April 30, 2013. The state court has ordered a hearing on the proposed plan for which a date has not yet been set. The Insurance Commissioner has filed a Notice of Appeal asking the Pennsylvania Supreme Court to reverse the order denying the liquidation petition. The Supreme Court has noted possible jurisdiction over the appeal and issued a schedule for filing briefs. 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

We are a party to an agreement with Express Scripts, Inc., or Express Scripts, to provide pharmacy benefit management, or PBM, services for our plans, excluding Amerigroup and certain self-insured members, which have exclusive agreements with different PBM services providers. The initial term of this agreement expires on December 31, 2019. Under this agreement, Express Scripts is the exclusive provider of certain specified PBM 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 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, 2013.

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, 2013 was \$346.1 through March 31, 2015. 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, 2013 was \$172.9 through March 31, 2016. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

10. 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, 2013 and 2012 is as follows:

| Declaration Date | Record Date | Payment Date | Cash Dividend per Share | Total |
|---------------------------------------|---------------|----------------|-------------------------|----------|
| Six Months Ended June 30, 2013 | | | | |
| February 20, 2013 | March 8, 2013 | March 25, 2013 | \$ 0.3750 | \$ 113.4 |
| May 15, 2013 | June 10, 2013 | June 25, 2013 | 0.3750 | 112.7 |
| 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 |

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, through negotiated 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, 2013 through July 11, 2013 (subsequent to June 30, 2013) and for the six months ended June 30, 2013 and 2012 is as follows:

| | July 1, 2013 Through July 11, 2013 | Six Months Ended June 30 2013 | 2012 |
|---|--|-------------------------------------|------------|
| Shares repurchased | 0.7 | 9.1 | 17.4 |
| Average price per share | \$ 81.59 | \$ 67.31 | \$ 67.52 |
| Aggregate cost | \$ 60.8 | \$ 615.5 | \$ 1,173.6 |
| Authorization remaining at the end of each period | \$ 1,160.5 | \$ 1,221.3 | \$ 3,160.2 |

Stock Incentive Plans

A summary of stock option activity for the six months ended June 30, 2013 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, 2013 | 17.8 | \$ 64.67 | | |
| Granted | 2.0 | 62.32 | | |
| Exercised | (2.9) | 52.51 | | |
| Forfeited or expired | (1.3) | 71.52 | | |
| Outstanding at June 30, 2013 | 15.6 | \$ 66.11 | 3.5 | \$ 246.2 |
| Exercisable at June 30, 2013 | 12.4 | \$ 66.86 | 2.8 | \$ 185.4 |

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A summary of the status of nonvested restricted stock activity, including restricted stock units, for the six months ended June 30, 2013 is as follows:

| | Restricted Stock Shares and Units | Weighted- Average Grant Date Fair Value per Share |
|------------------------------|--|--|
| Nonvested at January 1, 2013 | 2.6 | \$ 63.87 |
| Granted | 2.3 | 62.46 |
| Vested | (0.3) | 59.58 |
| Forfeited | (0.4) | 64.94 |
| Nonvested at June 30, 2013 | 4.2 | \$ 63.32 |

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, 2012 included in our 2012 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, 2013 and 2012:

| | 2013 | 2012 |
|--|-------------|-------------|
| Risk-free interest rate | 1.25% | 1.41% |
| Volatility factor | 35.00% | 34.00% |
| Quarterly dividend yield | 0.600% | 0.400% |
| Weighted-average expected life (years) | 4.0 | 4.1 |

The following weighted-average fair values were determined for the six months ended June 30, 2013 and 2012:

| | 2013 | 2012 |
|-----------------------------------|-------------|-------------|
| Options granted during the period | \$ 14.53 | \$ 16.53 |

Table of Contents**11. Accumulated Other Comprehensive Income (Loss)**

A reconciliation of the components of accumulated other comprehensive income (loss) at June 30, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|--|------------------|-----------------|
| Investments: | | |
| Gross unrealized gains | \$ 1,016.4 | \$ 1,154.1 |
| Gross unrealized losses | (313.9) | (86.6) |
| Net pre-tax unrealized gains | 702.5 | 1,067.5 |
| Deferred tax liability | (242.2) | (373.8) |
| Net unrealized gains on investments | 460.3 | 693.7 |
| Non-credit components of other-than-temporary impairments on investments: | | |
| Unrealized losses | | (3.4) |
| Deferred tax asset | | 1.2 |
| Net unrealized non-credit component of other-than-temporary impairments on investments | | (2.2) |
| Cash flow hedges: | | |
| Gross unrealized losses | (52.0) | (53.6) |
| Deferred tax asset | 18.2 | 18.8 |
| Net unrealized losses on cash flow hedges | (33.8) | (34.8) |
| Defined benefit pension plans: | | |
| Deferred net actuarial loss | (662.7) | (631.8) |
| Deferred prior service credits | 3.5 | 4.3 |
| Deferred tax asset | 259.7 | 254.1 |
| Net unrecognized periodic benefit costs for defined benefit pension plans | (399.5) | (373.4) |
| Postretirement benefit plans: | | |
| Deferred net actuarial loss | (185.5) | (227.3) |
| Deferred prior service credits | 96.5 | 109.6 |
| Deferred tax asset | 35.0 | 47.7 |
| Net unrecognized periodic benefit costs for postretirement benefit plans | (54.0) | (70.0) |
| Foreign currency translation adjustments: | | |
| Gross unrealized losses | (0.3) | (1.7) |
| Deferred tax asset | 0.1 | 0.6 |
| Net unrealized losses on foreign currency translation adjustments | (0.2) | (1.1) |
| Accumulated other comprehensive (loss) income | \$ (27.2) | \$ 212.2 |

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Other comprehensive income (loss) reclassification adjustments for the three months ended June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|------------|-----------|
| Investments: | | |
| Net holding loss on investment securities arising during the period, net of tax benefit of \$207.8 and \$38.7, respectively | \$ (404.8) | \$ (69.1) |
| Reclassification adjustment for net realized gain on investment securities, net of tax expense of \$14.5 and \$22.6, respectively | 27.0 | 42.0 |
| Total reclassification adjustment on investments | (377.8) | (27.1) |
| Non-credit component of other-than-temporary impairments on investments: | | |
| Non-credit component of other-than-temporary impairments on investments, net of tax benefit of \$0.0 and \$0.2, respectively | | (0.4) |
| Cash flow hedges: | | |
| Holding gain, net of tax expense (benefit) of \$0.4 and \$(0.1), respectively | 0.8 | (0.2) |
| Other: | | |
| Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of \$4.5 and \$4.3, respectively | 7.0 | 6.3 |
| Foreign currency translation adjustment, net of tax expense (benefit) of \$0.3 and \$(0.8), respectively | 0.3 | (1.4) |
| Net loss recognized in other comprehensive income (loss), net of tax benefit of \$188.1 and \$12.9, respectively | \$ (369.7) | \$ (22.8) |

Other comprehensive income (loss) reclassification adjustments for the six months ended June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|------------|-----------|
| Investments: | | |
| Net holding loss on investment securities arising during the period, net of tax benefit of \$205.4 and \$14.3, respectively | \$ (375.1) | \$ (24.2) |
| Reclassification adjustment for net realized gain on investment securities, net of tax expense of \$17.1 and \$56.2, respectively | 31.8 | 104.4 |
| Total reclassification adjustment on investments | (343.3) | 80.2 |
| Non-credit component of other-than-temporary impairments on investments: | | |
| Non-credit component of other-than-temporary impairments on investments, net of tax expense of \$1.2 and \$2.4, respectively | 2.2 | 4.4 |
| Cash flow hedges: | | |
| Holding gain, net of tax expense of \$0.8 and \$0.3, respectively | 1.5 | 0.4 |
| Other: | | |
| Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense of \$8.9 and \$8.8, respectively | 13.8 | 13.0 |
| Foreign currency translation adjustment, net of tax benefit of \$0.2 and \$0.4, respectively | (0.5) | (0.7) |
| Net (loss) gain recognized in other comprehensive income (loss), net of tax (benefit) expense of \$(177.6) and \$53.0, respectively | \$ (326.3) | \$ 97.3 |

Table of Contents**12. Earnings per Share**

The denominator for basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012 was as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-------|-----------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Denominator for basic earnings per share weighted average shares | 299.5 | 327.7 | 301.3 | 331.3 |
| Effect of dilutive securities employee and director stock options and non-vested restricted stock awards | 3.7 | 3.5 | 3.2 | 3.8 |
| Denominator for diluted earnings per share | 303.2 | 331.2 | 304.5 | 335.1 |

During the three months ended June 30, 2013 and 2012, weighted average shares related to certain stock options of 5.3 and 10.8, 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, 2013 and 2012, weighted average shares related to certain stock options of 8.4 and 10.5, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

During the three and six months ended June 30, 2013, shares related to the conversion feature of our Debentures were excluded from the denominator for diluted earnings per share because they were anti-dilutive.

During the six months ended June 30, 2013, we issued approximately 2.3 restricted stock units under our stock incentive plans, 0.9 of which vesting is contingent upon us meeting specified annual operating gain targets for 2013. 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

On May 20, 2013, we announced certain organizational and executive leadership changes to align with how our new Chief Executive Officer is managing the Company. Beginning with the three months ended June 30, 2013, our organizational structure is comprised of three reportable segments: Commercial and Specialty Business, Government Business and Other.

Our Commercial and Specialty Business segment includes Local Group, National Accounts, Individual and Specialty businesses. Business units in the Commercial and Specialty Business segment offer fully-insured products; 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; 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; and include the operations of our 1-800 CONTACTS business.

Our Government Business segment includes Medicare and Medicaid businesses, National Government Services and services provided to the Federal Government in connection with FEP. Medicare business includes services such as Medicare Advantage, Medicare Part D, and Medicare Supplement, while Medicaid business includes our managed care alternatives through publicly funded health care programs, including Medicaid, state Children's Health Insurance Programs and Medicaid expansion programs. National Government Services acts as a Medicare contractor in several regions across the nation.

Our Other segment includes other businesses that do not meet the quantitative thresholds for an operating segment as defined by FASB guidance, as well as corporate expenses not allocated to the other reportable segments.

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We define operating revenues to include premium income, administrative fees and other revenue. Operating revenues are derived from premiums and fees received primarily from the sale and administration of health benefit products, as well as sales of ocular products by 1-800 CONTACTS. Operating gain is calculated as total operating revenue less benefit expense; selling, general and administrative expense; and costs of products.

Financial data by reportable segment for the three and six months ended June 30, 2013 and 2012 is as follows (amounts reported for prior periods have been reclassified to conform to our new segment reporting structure):

| | Commercial and Specialty Business | Government Business | Other | Total |
|---|---|------------------------|---------|-------------|
| Three Months Ended June 30, 2013: | | | | |
| Operating revenue from external customers | \$ 9,757.1 | \$ 7,834.9 | \$ 5.2 | \$ 17,597.2 |
| Operating gain (loss) | 939.4 | 298.4 | (6.1) | 1,231.7 |
| Three Months Ended June 30, 2012: | | | | |
| Operating revenue from external customers | \$ 9,782.0 | \$ 5,381.8 | \$ 9.5 | \$ 15,173.3 |
| Operating gain (loss) | 869.0 | 132.7 | (10.0) | 991.7 |
| Six Months Ended June 30, 2013: | | | | |
| Operating revenue from external customers | \$ 19,569.6 | \$ 15,562.4 | \$ 11.5 | \$ 35,143.5 |
| Operating gain (loss) | 2,181.7 | 431.1 | (13.5) | 2,599.3 |
| Six Months Ended June 30, 2012: | | | | |
| Operating revenue from external customers | \$ 19,640.5 | \$ 10,665.1 | \$ 17.9 | \$ 30,323.5 |
| Operating gain (loss) | 2,010.9 | 212.8 | (19.4) | 2,204.3 |

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, 2013 and 2012 is as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------------------|-----------------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Reportable segments operating revenues | \$ 17,597.2 | \$ 15,173.3 | \$ 35,143.5 | \$ 30,323.5 |
| Net investment income | 153.2 | 169.4 | 315.2 | 338.4 |
| Net realized gains on investments | 54.2 | 70.5 | 71.0 | 177.4 |
| Other-than-temporary impairment losses recognized in income | (9.0) | (5.9) | (46.9) | (16.8) |
| Total revenues | \$ 17,795.6 | \$ 15,407.3 | \$ 35,482.8 | \$ 30,822.5 |

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, 2013 and 2012 is as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|----------|-----------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Reportable segments operating gain | \$ 1,231.7 | \$ 991.7 | \$ 2,599.3 | \$ 2,204.3 |
| Net investment income | 153.2 | 169.4 | 315.2 | 338.4 |
| Net realized gains on investments | 54.2 | 70.5 | 71.0 | 177.4 |
| Other-than-temporary impairment losses recognized in income | (9.0) | (5.9) | (46.9) | (16.8) |
| Interest expense | (151.9) | (117.6) | (305.4) | (226.7) |
| Amortization of other intangible assets | (67.7) | (59.5) | (135.6) | (118.2) |

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| | | | | |
|----------------------------------|------------|------------|------------|------------|
| Income before income tax expense | \$ 1,210.5 | \$ 1,048.6 | \$ 2,497.6 | \$ 2,358.4 |
|----------------------------------|------------|------------|------------|------------|

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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, 2012 and the MD&A included in our 2012 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, 2013 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, 2013 are not necessarily indicative of the results and trends that may be expected for the full year ending December 31, 2013. Also see Part I, Item 1A, Risk Factors of our 2012 Annual Report on Form 10-K and Part II, Item 1A, Risk Factors of this Form 10-Q.

Overview

On May 20, 2013, we announced certain organizational and executive leadership changes to align with how our new Chief Executive Officer is managing our operations. Beginning with the three months ended June 30, 2013, our organizational structure is comprised of three reportable segments: Commercial and Specialty Business, Government Business and Other. Prior period segment information has been reclassified to conform to the new segment reporting structure.

Our Commercial and Specialty Business segment includes Local Group, National Accounts, Individual and Specialty businesses. Business units in the Commercial and Specialty Business segment offer fully-insured products; 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; 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; and include the operations of our 1-800 CONTACTS, Inc., or 1-800 CONTACTS business.

Our Government Business segment includes Medicare and Medicaid businesses, National Government Services and services provided to the Federal Government in connection with the Federal Employee Program, or FEP. Medicare business includes services such as Medicare Advantage, Medicare Part D, and Medicare Supplement, while Medicaid business includes our managed care alternatives through publicly funded health care programs, including Medicaid, state Children's Health Insurance Programs and Medicaid expansion programs. National Government Services acts as a Medicare contractor in several regions across the nation.

Our Other segment includes other businesses that do not meet the quantitative thresholds for an operating segment as defined by Financial Accounting Standards Board, or FASB, guidance, as well as corporate expenses not allocated to the other reportable segments.

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 2012 Annual Report on Form 10-K.

Executive Summary

We are one of the largest health benefits companies in the United States, serving approximately 35.7 medical members through our affiliated health plans and approximately 68.0 individuals through all subsidiaries as of June 30, 2013. 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

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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). Through our AMERIGROUP Corporation subsidiary, or Amerigroup, we conduct business in Florida, Georgia, Kansas, Louisiana, Maryland, Nevada, New Jersey, New Mexico, New York, Tennessee, Texas and Washington. Amerigroup also provided services to the state of Ohio through June 30, 2013. We also serve customers throughout the country as HealthLink, UniCare and in certain Arizona, California, Nevada, New York and Virginia 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 1-800 CONTACTS, Inc., or 1-800 CONTACTS, business.

Operating revenue for the three months ended June 30, 2013 was \$17,597.2, an increase of \$2,423.9, or 16.0%, from the three months ended June 30, 2012, reflecting higher premium revenue in our Government Business segment, partially offset by lower premium revenue in our Commercial and Specialty Business segment. The higher premium revenue in our Government Business segment primarily resulted from the acquisition of Amerigroup in December 2012 and was partially offset by lower revenues in our Medicare Advantage business primarily due to the transition toward health maintenance organization, or HMO, product offerings. The premium revenue decrease in our Commercial and Specialty Business segment was driven primarily by fully-insured membership declines in our Local Group business resulting from strategic product portfolio changes in certain states, competitive pressure in certain markets and, we believe, affordability challenges affecting healthcare consumers in general. This decrease was partially offset by premium rate increases in our Local Group and Individual businesses designed to cover overall cost trends.

Operating revenue for the six months ended June 30, 2013 was \$35,143.5, an increase of \$4,820.0, or 15.9%, from the six months ended June 30, 2012, reflecting higher premium revenue in our Government Business segment, partially offset by lower premium revenue in our Commercial and Specialty Business segment. The higher premium revenue in our Government Business segment primarily resulted from the acquisition of Amerigroup in December 2012 and growth in our FEP business resulting from both increases in membership and premium rate increases designed to cover overall cost trends, partially offset by lower revenues in our Medicare Advantage and Medicare Part D businesses primarily due to the transition toward HMO product offerings. The premium revenue decrease in our Commercial and Specialty Business segment was driven primarily by fully-insured membership declines in our Local Group business resulting from strategic product portfolio changes in certain states, competitive pressure in certain markets and, we believe, affordability challenges affecting healthcare consumers in general. This decrease was partially offset by premium rate increases in our Local Group and Individual businesses designed to cover overall cost trends.

Net income for the three months ended June 30, 2013 was \$800.1, an increase of \$156.5, or 24.3%, from the three months ended June 30, 2012. This increase in net income was primarily driven by higher operating results in both our Government Business and Commercial and Specialty Business segments, partially offset by an increase in interest expense resulting from higher outstanding debt balances associated with our acquisition of Amerigroup. Our fully-diluted earnings per share, or EPS, was \$2.64 for the three months ended June 30, 2013, which represented a 36.1% increase over the EPS of \$1.94 for the three months ended June 30, 2012. The increase in EPS resulted primarily from the increase in net income and the lower number of shares outstanding in 2013 due to share buyback activity under our share repurchase program.

Net income for the six months ended June 30, 2013 was \$1,685.3, an increase of \$185.2, or 12.3%, from the six months ended June 30, 2012. This increase in net income was primarily driven by higher operating results in both our Government Business and Commercial and Specialty Business segments, partially offset by a decrease in net realized gains on investments and an increase in interest expense resulting from higher outstanding debt

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balances associated with our acquisition of Amerigroup. Our fully-diluted EPS was \$5.53 for the six months ended June 30, 2013, which represented a 23.4% increase over the EPS of \$4.48 for the six months ended June 30, 2012. The increase in EPS resulted primarily from the increase in net income and the lower number of shares outstanding in 2013 due to share buyback activity under our share repurchase program.

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, adjusted EPS and operating gain, 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 a 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 income before income tax expense, net income or diluted EPS prepared in accordance with GAAP, and may n