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

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended June 30, 2012

OR

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

For the transition period from to

Commission file number: 001-16751

WELLPOINT, INC.

(Exact name of registrant as specified in its charter)

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

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

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

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WellPoint, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WellPoint, Inc.

Consolidated Balance Sheets

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

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

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Income

(Unaudited)

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

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

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

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

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

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

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Shareholders Equity

(Unaudited)

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

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2012

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

1. Organization

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

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

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

2. Basis of Presentation

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

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

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

3. Business Combinations

Acquisition of 1-800 CONTACTS

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

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

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

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

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

Pending Acquisition of AMERIGROUP Corporation

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

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

4. Restructuring Activities

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

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

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

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

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

5. Investments

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

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

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

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

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

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

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

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

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

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

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

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

6. Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

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

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Obligations	Equity Securities	Total
Three Months Ended June 30, 2012:						
Beginning balance at April 1, 2012	$ 109.2	$ 1.4	$	$ 8.7	$ 20.6	$ 139.9
Total gains (losses):						
Recognized in net income	0.3				0.1	0.4
Recognized in accumulated other comprehensive income	(0.6)			0.1	(4.3)	(4.8)
Purchases	27.4		3.4		0.3	31.1
Sales	(3.2)			(6.6)	(0.4)	(10.2)
Issues						
Settlements	(7.1)			(0.3)		(7.4)
Transfers into Level III	1.7		1.9	2.0	12.5	18.1
Transfers out of Level III						
Ending balance at June 30, 2012	$ 127.7	$ 1.4	$ 5.3	$ 3.9	$ 28.8	$ 167.1
Change in unrealized losses included in net income related to assets still held for the three months ended June 30, 2012	$	$	$	$	$	$