

WELLPOINT, INC
Form 10-Q
April 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 March 31, 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)

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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)

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:

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 April 11, 2013
Common Stock, \$0.01 par value	300,362,528 shares

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WellPoint, Inc.

Quarterly Report on Form 10-Q

For the Period Ended March 31, 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>	March 31, 2013	December 31, 2012
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,665.3	\$ 2,484.6
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of \$17,006.7 and \$16,033.1)	17,819.1	16,912.9
Equity securities (cost of \$904.0 and \$869.9)	1,355.4	1,212.4
Other invested assets, current	17.0	14.8
Accrued investment income	172.9	162.2
Premium and self-funded receivables	4,098.9	3,687.4
Other receivables	928.2	928.8
Income taxes receivable		228.5
Securities lending collateral	577.5	564.6
Deferred tax assets, net	135.4	243.2
Other current assets	1,891.0	1,829.0
Total current assets	28,660.7	28,268.4
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of \$464.4 and \$426.0)	468.6	431.5
Equity securities (cost of \$27.0 and \$27.1)	30.2	30.1
Other invested assets, long-term	1,482.4	1,387.7
Property and equipment, net	1,738.1	1,738.3
Goodwill	17,489.5	17,510.5
Other intangible assets	9,055.8	9,102.8
Other noncurrent assets	483.3	486.1
Total assets	\$ 59,408.6	\$ 58,955.4
Liabilities and shareholders equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	\$ 6,215.4	\$ 6,174.5
Reserves for future policy benefits	57.3	61.3
Other policyholder liabilities	2,359.7	2,345.7
Total policy liabilities	8,632.4	8,581.5
Unearned income	865.7	896.8
Accounts payable and accrued expenses	2,936.8	3,132.5
Income taxes payable	204.8	
Security trades pending payable	215.5	69.3
Securities lending payable	577.5	564.7
Short-term borrowings	350.0	250.0
Current portion of long-term debt	399.4	557.1
Other current liabilities	1,848.0	1,785.0
Total current liabilities	16,030.1	15,836.9
Long-term debt, less current portion	14,030.0	14,170.8
Reserves for future policy benefits, noncurrent	770.8	750.8
Deferred tax liabilities, net	3,287.9	3,381.0

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Other noncurrent liabilities	971.8	1,013.2
Total liabilities	35,090.6	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: 300,693,279 and 304,715,144	3.0	3.0
Additional paid-in capital	10,697.4	10,853.5
Retained earnings	13,275.1	12,647.1
Accumulated other comprehensive income	342.5	299.1
Total shareholders' equity	24,318.0	23,802.7
Total liabilities and shareholders' equity	\$ 59,408.6	\$ 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 March 31	
	2013	2012
Revenues		
Premiums	\$ 16,435.6	\$ 14,138.5
Administrative fees	990.1	995.8
Other revenue	120.6	15.9
Total operating revenue	17,546.3	15,150.2
Net investment income	162.0	169.0
Net realized gains on investments	16.8	106.9
Other-than-temporary impairment losses on investments:		
Total other-than-temporary impairment losses on investments	(37.9)	(13.7)
Portion of other-than-temporary impairment losses recognized in other comprehensive income		2.8
Other-than-temporary impairment losses recognized in income	(37.9)	(10.9)
Total revenues	17,687.2	15,415.2
Expenses		
Benefit expense	13,748.7	11,771.9
Selling, general and administrative expense:		
Selling expense	385.9	393.3
General and administrative expense	1,979.1	1,772.4
Total selling, general and administrative expense	2,365.0	2,165.7
Cost of products	65.0	
Interest expense	153.5	109.1
Amortization of other intangible assets	67.9	58.7
Total expenses	16,400.1	14,105.4
Income before income tax expense	1,287.1	1,309.8
Income tax expense	401.9	453.3
Net income	\$ 885.2	\$ 856.5
Net income per share		
Basic	\$ 2.92	\$ 2.56
Diluted	\$ 2.89	\$ 2.53
Dividends per share	\$ 0.3750	\$ 0.2875

See accompanying notes.

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

(Unaudited)

<i>(In millions)</i>	Three Months Ended	
	March 31	
	2013	2012
Net income	\$ 885.2	\$ 856.5
Other comprehensive income, net of tax:		
Change in net unrealized gains/losses on investments	34.5	107.3
Change in non-credit component of other-than-temporary impairment losses on investments	2.2	4.8
Change in net unrealized gains/losses on cash flow hedges	0.7	0.6
Change in net periodic pension and postretirement costs	6.8	6.7
Foreign currency translation adjustments	(0.8)	0.7
Other comprehensive income	43.4	120.1
Total comprehensive income	\$ 928.6	\$ 976.6

See accompanying notes.

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

(Unaudited)

	Three Months Ended March 31	
	2013	2012
<i>(In millions)</i>		
Operating activities		
Net income	\$ 885.2	\$ 856.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	(16.8)	(106.9)
Other-than-temporary impairment losses recognized in income	37.9	10.9
Loss on disposal of assets	0.7	0.3
Deferred income taxes	9.1	59.9
Amortization, net of accretion	186.7	155.2
Depreciation expense	25.3	23.5
Share-based compensation	21.5	32.5
Excess tax benefits from share-based compensation	(4.2)	(19.3)
Changes in operating assets and liabilities, net of effect of business combinations:		
Receivables, net	(397.7)	(302.3)
Other invested assets	(8.2)	(21.3)
Other assets	(58.6)	(74.3)
Policy liabilities	70.9	(79.0)
Unearned income	(31.1)	697.6
Accounts payable and accrued expenses	(224.0)	(388.3)
Other liabilities	35.1	(2.9)
Income taxes	435.6	391.0
Other, net	(10.5)	(10.0)
Net cash provided by operating activities	956.9	1,223.1
Investing activities		
Purchases of fixed maturity securities	(3,955.5)	(3,252.4)
Proceeds from fixed maturity securities:		
Sales	2,531.8	2,731.5
Maturities, calls and redemptions	490.8	477.6
Purchases of equity securities	(109.8)	(100.4)
Proceeds from sales of equity securities	87.4	163.7
Purchases of other invested assets	(127.5)	(34.7)
Proceeds from sales of other invested assets	7.6	3.8
Changes in securities lending collateral	(12.9)	156.6
Purchases of subsidiaries, net of cash acquired		(1.2)
Purchases of property and equipment	(107.5)	(123.8)
Other, net		(0.6)
Net cash (used in) provided by investing activities	(1,195.6)	20.1
Financing activities		
Net proceeds from commercial paper borrowings	260.3	37.8
Repayments of long-term borrowings	(556.9)	(350.8)
Proceeds from short-term borrowings	100.0	100.0
Repayments of short-term borrowings		(100.0)
Changes in securities lending payable	12.8	(156.6)
Changes in bank overdrafts	30.4	23.2
Repurchase and retirement of common stock	(340.2)	(679.8)
Cash dividends	(113.4)	(95.8)
Proceeds from issuance of common stock under employee stock plans	23.7	35.7
Excess tax benefits from share-based compensation	4.2	19.3
Net cash used in financing activities	(579.1)	(1,167.0)

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Effect of foreign exchange rates on cash and cash equivalents	(1.5)	1.3
Change in cash and cash equivalents	(819.3)	77.5
Cash and cash equivalents at beginning of period	2,484.6	2,201.6
Cash and cash equivalents at end of period	\$ 1,665.3	\$ 2,279.1

See accompanying notes.

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

(Unaudited)

	Common Stock			Retained Earnings	Accumulated	Total Shareholders Equity
	Number of Shares	Par Value	Additional Paid-in Capital		Other Comprehensive Income	
<i>(In millions)</i>						
January 1, 2013	304.7	\$ 3.0	\$ 10,853.5	\$ 12,647.1	\$ 299.1	\$ 23,802.7
Net income				885.2		885.2
Other comprehensive income					43.4	43.4
Repurchase and retirement of common stock	(5.5)		(200.5)	(143.0)		(343.5)
Convertible debenture tax adjustment			(4.0)			(4.0)
Dividends and dividend equivalents				(114.2)		(114.2)
Issuance of common stock under employee stock plans, net of related tax benefits	1.5		48.4			48.4
March 31, 2013	300.7	\$ 3.0	\$ 10,697.4	\$ 13,275.1	\$ 342.5	\$ 24,318.0
January 1, 2012	339.4	3.4	\$ 11,679.2	\$ 11,490.7	\$ 114.9	\$ 23,288.2
Net income				856.5		856.5
Other comprehensive income					120.1	120.1
Repurchase and retirement of common stock	(10.2)	(0.1)	(350.3)	(329.4)		(679.8)
Dividends and dividend equivalents				(96.7)		(96.7)
Issuance of common stock under employee stock plans, net of related tax benefits	2.6		40.1			40.1
March 31, 2012	331.8	\$ 3.3	\$ 11,369.0	\$ 11,921.1	\$ 235.0	\$ 23,528.4

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 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 35.8 medical members through our affiliated health plans and approximately 68.0 individuals through all subsidiaries as of March 31, 2013. 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 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 and as the Blue Cross and Blue Shield, or BCBS, licensee for Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as 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, Ohio, Tennessee, Texas and Washington. We also serve customers throughout the country as 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 complete 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 months ended March 31, 2013 and 2012 have been recorded. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. These unaudited

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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 year amounts have been reclassified to conform to the current year presentation.

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 three months ended March 31, 2013, by reportable segment, is as follows:

	Commercial	Consumer	Other	Total
2012 Restructuring Activities				
Employee termination costs:				
Liability for employee termination costs at January 1, 2013	\$ 40.4	\$ 72.8	\$ 4.4	\$ 117.6
Payments	(8.7)	(19.0)	(0.9)	(28.6)
Liability released	(1.1)	(0.9)	(0.2)	(2.2)
Liability for employee termination costs at March 31, 2013	30.6	52.9	3.3	86.8
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	(1.0)	(0.3)		(1.3)
Liability released				
Liability for lease and other contract exit costs at March 31, 2013	7.8	2.6	0.1	10.5
Total liability for 2012 restructuring activities at March 31, 2013	\$ 38.4	\$ 55.5	\$ 3.4	\$ 97.3

The 2011 restructuring activities were initiated as a result of a change in strategic focus primarily in response to federal health care reform. At March 31, 2013, our total liability for 2011 restructuring activities was \$24.9, of which \$6.8 related to employee termination costs and \$18.1 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 \$37.9 and \$10.9 for the three months ended March 31, 2013 and 2012, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three months ended March 31, 2013 and 2012. We continue to review our investment portfolios under our impairment review policy. Given the current market conditions and

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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 March 31, 2013 and December 31, 2012 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	12 Months or Greater	Estimated Fair Value	
March 31, 2013:						
Fixed maturity securities:						
United States Government securities	\$ 393.6	\$ 10.9	\$ (0.2)	\$	\$ 404.3	\$
Government sponsored securities	132.9	2.2				