

WELLPOINT, INC
Form 10-Q
April 28, 2010
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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, 2010

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)

120 MONUMENT CIRCLE; INDIANAPOLIS, INDIANA
(Address of principal executive offices)

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

35-2145715
(I.R.S. Employer
Identification Number)

46204-4903
(Zip Code)

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 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 April 15, 2010
Common Stock, \$0.01 par value	427,187,403 shares

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Quarterly Report on Form 10-Q
For the Period Ended March 31, 2010

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

	March 31, 2010	December 31, 2009
	(Unaudited)	
<i>(In millions, except share data)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,526.2	\$ 4,816.1
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of \$15,031.7 and \$15,203.1)	15,601.1	15,696.9
Equity securities (cost of \$793.9 and \$799.1)	1,056.6	1,010.7
Other invested assets, current	19.3	26.5
Accrued investment income	170.7	172.8
Premium and self-funded receivables	3,298.6	3,281.0
Other receivables	1,038.1	879.5
Securities lending collateral	600.5	394.8
Deferred tax assets, net	481.6	523.8
Other current assets	1,323.8	1,268.6
Total current assets	27,116.5	28,070.7
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of \$222.4 and \$223.0)	229.6	230.4
Equity securities (cost of \$32.4 and \$33.4)	31.9	32.5
Other invested assets, long-term	802.4	775.3
Property and equipment, net	1,144.5	1,099.6
Goodwill	13,265.7	13,264.6
Other intangible assets	8,177.8	8,259.3
Other noncurrent assets	412.5	393.0
Total assets	\$ 51,180.9	\$ 52,125.4
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	\$ 5,487.3	\$ 5,450.5
Reserves for future policy benefits	59.4	62.6
Other policyholder liabilities	1,652.9	1,617.6
Total policy liabilities	7,199.6	7,130.7
Unearned income	1,117.7	1,050.0
Accounts payable and accrued expenses	2,686.7	2,994.1
Income taxes payable	380.8	1,228.7
Security trades pending payable	263.6	37.6
Securities lending payable	602.0	396.6
Current portion of long-term debt	759.9	60.8
Other current liabilities	1,800.2	1,775.2
Total current liabilities	14,810.5	14,673.7
Long-term debt, less current portion	7,630.4	8,338.3
Reserves for future policy benefits, noncurrent	663.8	664.6
Deferred tax liabilities, net	2,501.0	2,470.4
Other noncurrent liabilities	1,056.0	1,115.1

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Total liabilities	26,661.7	27,262.1
Commitments 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: 431,360,762 and 449,789,672	4.3	4.5
Additional paid-in capital	14,552.5	15,192.2
Retained earnings	9,795.6	9,598.5
Accumulated other comprehensive income	166.8	68.1
Total shareholders' equity	24,519.2	24,863.3
Total liabilities and shareholders' equity	\$ 51,180.9	\$ 52,125.4

See accompanying notes.

Table of Contents**WellPoint, Inc.****Consolidated Statements of Income****(Unaudited)**

	Three Months Ended March 31	
	2010	2009
<i>(In millions, except per share data)</i>		
Revenues		
Premiums	\$ 13,909.9	\$ 14,203.2
Administrative fees	952.9	941.5
Other revenue	5.9	154.0
Total operating revenue	14,868.7	15,298.7
Net investment income	201.1	197.1
Net realized gains (losses) on investments	48.4	(47.5)
Other-than-temporary impairment losses on investments:		
Total other-than-temporary impairment losses on investments	(27.9)	(305.0)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	8.2	
Other-than-temporary impairment losses recognized in income	(19.7)	(305.0)
Total revenues	15,098.5	15,143.3
Expenses		
Benefit expense	11,381.4	11,724.4
Selling, general and administrative expense:		
Selling expense	402.4	432.0
General and administrative expense	1,798.2	1,796.9
Total selling, general and administrative expense	2,200.6	2,228.9
Cost of drugs		112.4
Interest expense	99.4	116.1
Amortization of other intangible assets	60.7	67.9
Impairment of other intangible assets	21.1	
Total expenses	13,763.2	14,249.7
Income before income tax expense	1,335.3	893.6
Income tax expense	458.5	313.2
Net income	\$ 876.8	\$ 580.4
Net income per share		
Basic	\$ 1.99	\$ 1.17
Diluted	\$ 1.96	\$ 1.16

See accompanying notes.

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

	Three Months Ended March 31	
	2010	2009
<i>(In millions)</i>		
Operating activities		
Net income	\$ 876.8	\$ 580.4
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net realized (gains) losses on investments	(48.4)	47.5
Other-than-temporary impairment losses recognized in income	19.7	305.0
(Gain) loss on disposal of assets	(0.5)	0.3
Deferred income taxes	40.2	(10.5)
Amortization, net of accretion	111.9	109.6
Impairment of other intangible assets	21.1	
Depreciation expense	27.6	26.1
Share-based compensation	14.1	24.8
Excess tax benefits from share-based compensation	(21.6)	(0.7)
Changes in operating assets and liabilities, net of effect of business combinations:		
Receivables, net	(279.8)	(486.1)
Other invested assets, current	7.0	13.8
Other assets	(74.5)	(7.5)
Policy liabilities	68.1	31.2
Unearned income	67.7	65.4
Accounts payable and accrued expenses	(288.8)	120.3
Other liabilities	(21.2)	16.8
Income taxes	(830.3)	347.1
Other, net	(12.0)	8.5
Net cash (used in) provided by operating activities	(322.9)	1,192.0
Investing activities		
Purchases of fixed maturity securities	(1,642.1)	(2,051.0)
Proceeds from fixed maturity securities:		
Sales	960.6	869.5
Maturities, calls and redemptions	1,213.7	289.5
Purchases of equity securities	(37.4)	(31.3)
Proceeds from sales of equity securities	45.6	168.4
Purchases of other invested assets	(28.8)	(18.8)
Proceeds from sales of other invested assets	7.4	0.9
Changes in securities lending collateral	(205.4)	54.9
Purchases of subsidiaries, net of cash acquired	(0.3)	(1.1)
Purchases of property and equipment	(120.2)	(68.9)
Proceeds from sales of property and equipment	3.1	0.2
Other, net	(4.3)	(3.2)
Net cash provided by (used in) investing activities	191.9	(790.9)
Financing activities		
Net proceeds from (repayments of) commercial paper borrowings	0.1	(273.1)
Repayment of long-term borrowings	(15.1)	(228.1)
Proceeds from long-term borrowings		990.3
Net proceeds from short-term borrowings		2.0
Changes in securities lending payable	205.4	(54.9)
Changes in bank overdrafts	(50.8)	19.5
Repurchase and retirement of common stock	(1,388.4)	(681.2)
Proceeds from exercise of employee stock options and employee stock purchase plan	69.5	17.9

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Excess tax benefits from share-based compensation	21.6	0.7
Net cash used in financing activities	(1,157.7)	(206.9)
Effect of foreign exchange rates on cash and cash equivalents	(1.2)	
Change in cash and cash equivalents	(1,289.9)	194.2
Cash and cash equivalents at beginning of period	4,816.1	2,183.9
Cash and cash equivalents at end of period	\$ 3,526.2	\$ 2,378.1

See accompanying notes.

Table of Contents**WellPoint, Inc.****Consolidated Statements of Shareholders' Equity****(Unaudited)***(In millions)*

	Common Stock				Accumulated	Total Shareholders' Equity
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	
January 1, 2010	449.8	\$ 4.5	\$ 15,192.2	\$ 9,598.5	\$ 68.1	\$ 24,863.3
Net income				876.8		876.8
Change in net unrealized gains/losses on investments					99.2	99.2
Non-credit component of other-than-temporary impairment losses on investments, net of taxes					(3.1)	(3.1)
Change in net unrealized gains/losses on cash flow hedges					0.2	0.2
Change in net periodic pension and postretirement costs					3.4	3.4
Foreign currency translation adjustments					(1.0)	(1.0)
Comprehensive income						975.5
Repurchase and retirement of common stock	(20.9)	(0.2)	(708.5)	(679.7)		(1,388.4)
Issuance of common stock under employee stock plans, net of related tax benefits	2.5		68.8			68.8
March 31, 2010	431.4	\$ 4.3	\$ 14,552.5	\$ 9,795.6	\$ 166.8	\$ 24,519.2
January 1, 2009	503.2	\$ 5.0	\$ 16,843.0	\$ 5,479.4	\$ (895.7)	\$ 21,431.7
Net income				580.4		580.4
Change in net unrealized gains/losses on investments					152.6	152.6
Change in net unrealized gains/losses on cash flow hedges					(2.2)	(2.2)
Change in net periodic pension and postretirement costs					(0.2)	(0.2)
Comprehensive income						730.6
Repurchase and retirement of common stock	(17.7)	(0.2)	(591.8)	(89.2)		(681.2)
Issuance of common stock under employee stock plans, net of related tax benefits	0.8		26.9			26.9
March 31, 2009	486.3	\$ 4.8	\$ 16,278.1	\$ 5,970.6	\$ (745.5)	\$ 21,508.0

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2010

(In Millions, Except Per Share Data or 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 the largest health benefits company in terms of commercial membership in the United States, serving 33.8 medical members as of March 31, 2010. 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 also provide an array of specialty and other products and services such as life and disability insurance benefits, dental, vision, behavioral health benefit services, radiology benefit management, analytics-driven personal health care guidance, long-term care insurance and flexible spending accounts. We are licensed to conduct insurance operations in all 50 states through our subsidiaries.

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 Blue Shield or Empire Blue Cross Blue Shield (in our New York service areas). We also serve customers throughout much of the country as UniCare.

During the first quarter of 2010, the U.S. Congress passed and the President signed into law the Patient Protection and Affordable Care Act as well as the Health Care and Education Reconciliation Act of 2010, which represent significant changes to the current U.S. health care system. The legislation is far-reaching and is intended to expand access to health insurance coverage over time by increasing the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax incentives to subsidize a portion of the cost of health insurance coverage. The legislation includes a requirement that most individuals obtain health insurance coverage beginning in 2014 and that most large employers offer coverage to their employees or they will be required to pay a financial penalty. In addition, the new laws encompass certain new taxes and fees, including an excise tax on high premium insurance policies, limitations on the amount of compensation that is tax deductible and new fees on companies in our industry which may not be deductible for income tax purposes. The legislation also imposes new regulations on the health insurance sector, including, but not limited to, guaranteed coverage requirements, prohibitions on some annual and all lifetime limits on amounts paid on behalf of or to our members, increased restrictions on rescinding coverage, establishment of minimum medical loss ratio requirements, a requirement to cover preventative services on a first dollar basis, the establishment of state insurance exchanges and essential benefit packages, and greater limitations on how we price certain of our products. The legislation also reduces the reimbursement levels for health plans participating in the Medicare Advantage program over time.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (Continued)

Some provisions of the health care reform legislation become effective this year including those that bar health insurance companies from placing lifetime limits on insurance coverage and those related to the increased restrictions on rescinding coverage. However, some of the more significant changes, including the annual fees on health insurance companies, the excise tax on high premium insurance policies, the guaranteed coverage requirements and the requirement that individuals obtain coverage, do not become effective until 2014 or later. The establishment of minimum medical loss ratios, which could have a significant impact on our operations, will take effect for certain of our businesses beginning in 2011.

Many of the details of the new law, including, but not limited to, the medical loss ratio requirements, require additional guidance and specificity to be provided by the Department of Health and Human Services, National Association of Insurance Commissioners, Department of Labor and Treasury Department. Accordingly, while it is too early to fully understand the impacts of the legislation on our business, certain of the provisions are likely to have significant impacts on our future operations, which, in turn, could impact the value of our business model and results of operations. The Company will continue to evaluate the impact of this legislation as additional guidance is provided by the Department of Health and Human Services, National Association of Insurance Commissioners, Department of Labor and Treasury Department.

In addition, federal and state regulatory agencies may restrict our ability to implement changes in premium rates. Our ability to secure sufficient premium rates, including regulatory approval for and implementation of such rates on a timely basis, may be restricted by additional changes in federal and state regulations or by the application of existing federal and state regulations. A limitation on our ability to increase or maintain our premium rates could adversely affect our business, cash flows, financial condition and results of operations.

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. 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, 2010 and 2009 have been recorded. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009 included in our 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 shareholders' equity.

Our benefit expense includes costs of care for health services consumed by our members, such as outpatient care, inpatient hospital care, professional services (primarily physician care) and pharmacy benefit costs. Beginning January 1, 2010, we began classifying certain claims-related costs, which were historically classified as administrative expense, as benefit expense to better reflect costs incurred for our members' traditional medical care as well as those expenses which improve our members' health and medical outcomes. These reclassified costs are comprised of expenses incurred for: (i) medical management, including case and utilization management; (ii) health and wellness, including disease management services for such things as diabetes, high-risk pregnancies, congestive heart failure and asthma management and wellness initiatives like weight-loss programs and smoking cessation treatments; and (iii) clinical health policy. These types of claims-related costs ultimately lower our members' cost of care. Prior year amounts have been reclassified to conform to the new presentation.

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

Table of Contents**WellPoint, Inc.****Notes to Consolidated Financial Statements (Continued)****3. 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 \$19.7 and \$305.0 for the three months ended March 31, 2010 and 2009, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three months ended

March 31, 2010 and 2009. 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.

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 months ended March 31, 2010.

A summary of current and long-term investments, available-for-sale, at March 31, 2010 and December 31, 2009 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Less than 12 Months	Greater than 12 Months	Estimated Fair Value	Non-Credit Component of Other-Than- Temporary Impairments Recognized in AOCI
March 31, 2010:						
Fixed maturity securities:						
United States Government securities	\$ 610.5	\$ 14.0	\$ (0.7)	\$ (0.3)	\$ 623.5	\$
Government sponsored securities	434.1	7.9	(0.1)		441.9	
States, municipalities and political subdivisions - tax-exempt	4,157.7	160.6	(7.0)	(32.5)	4,278.8	
Corporate securities	6,257.6	383.3	(10.9)	(14.5)	6,615.5	(0.9)
Options embedded in convertible debt securities	92.3				92.3	
Residential mortgage-backed securities	3,219.0	127.4	(5.1)	(40.2)	3,301.1	(6.0)
Commercial mortgage-backed securities	148.2	5.2		(3.5)	149.9	
Other debt obligations	334.7	10.5	(2.2)	(15.3)	327.7	(1.3)
Total fixed maturity securities	15,254.1	708.9	(26.0)	(106.3)	15,830.7	\$ (8.2)
Equity securities	826.3	270.9	(8.7)		1,088.5	
Total investments, available-for-sale	\$ 16,080.4	\$ 979.8	\$ (34.7)	\$ (106.3)	\$ 16,919.2	
December 31, 2009:						
Fixed maturity securities:						
United States Government securities	\$ 715.4	\$ 14.8	\$ (2.4)	\$ (0.2)	\$ 727.6	\$
Government sponsored securities	632.8	8.3	(0.4)		640.7	

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States, municipalities and political subdivisions - tax-exempt	4,019.4	167.0	(5.7)	(34.4)	4,146.3	(0.5)
Corporate securities	6,219.3	352.2	(12.9)	(34.5)	6,524.1	(3.3)
Options embedded in convertible debt securities	88.3				88.3	
Residential mortgage-backed securities	3,295.0	120.0	(7.9)	(47.0)	3,360.1	(9.0)
Commercial mortgage-backed securities	137.6	3.6	(0.1)	(4.9)	136.2	
Other debt obligations						