PECO II INC
Form 8-K
June 07, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 1, 2006

PECO II, Inc.

(Exact name of registrant as specified in its charter)

Ohio	000-31283	34-1605456
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1376 State Route 598, Galion, Ohio	44833
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (419) 468-7600

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement.

On June 1, 2006, the Company s board of directors approved board of directors fees, effective July 1, 2006. The schedule of director fees is attached as Exhibit 10.1 to this Form 8-K and is incorporated into Item 1.01 of this Form 8-K by reference.

Item 7.01 Regulation FD Disclosure.

At the Company s annual meeting of shareholders on June 1, 2006, Richard W. Orchard, age 52, was elected to the Company s board of directors as a Class III director. Incumbents James L. Green and Matthew P. Smith were also reelected by the Company s shareholders as Class III directors. In addition, on June 1, 2006, the Board of Directors appointed Mr. Orchard to the Company s Compensation/Nominating Committee and Mr. Moersdorf, Jr. to the Company s Audit Committee.

On June 1, 2006, James L. Green announced his resignation as Chairman of the Board and that he will continue to serve as a board member. Subsequently, on June 1, 2006, the board of directors elected John G. Heindel, the Company s President and Chief Executive Officer, to fill the position of Chairman of the Board.

The Company s press release, dated June 7, 2006, regarding its board changes is furnished as Exhibit 99.1 hereto and is incorporated into Item 7.01 of this Form 8-K by reference.

The information contained in Item 7.01 of this Form 8-K, including Exhibit 99.1 attached hereto, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference to such filing.

Item 9.01. Financial Statements and Exhibits.

(c) *Exhibits*.

Exhibit No.	***Description***
10.1	Schedule of Directors Fees.
99.1	Press Release, dated June 7, 2006.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	PECO II, Inc.
Date: June 7, 2006	By: /s/ John G. Heindel John G. Heindel Chairman, President and Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	*Description*
10.1	Schedule of Director Fees.
99.1	Press Release, dated June 7, 2006.

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Foreign currency translation adjustments

1.2 1.2

Comprehensive income

5,798.6

Repurchase and retirement of common stock

(57.3) (0.5) (1,922.2) (715.7) (2,638.4)

Issuance of common stock under employee stock plans, net of related tax benefit

3.9 271.4 271.4

December 31, 2009

449.8 $4.5 $15,192.2 $9,598.5 $68.1 $24,863.3

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Shareholders Equity (continued)

	Common Stock					
(In millions)	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
December 31, 2009	449.8	$ 4.5	$ 15,192.2	$ 9,598.5	$ 68.1	$ 24,863.3
Net income				2,887.1		2,887.1
Change in net unrealized gains/losses on investments					125.1	125.1
Change in non-credit component of other-than- temporary impairment losses on investments, net of taxes					14.7	14.7
Change in net unrealized gains/losses on cash flow hedges					(14.5)	(14.5)
Change in net periodic pension and postretirement costs					32.9	32.9
Foreign currency translation adjustments					(1.7)	(1.7)
Comprehensive income						3,043.6
Repurchase and retirement of common stock	(76.7)	(0.7)	(2,595.6)	(1,764.0)		(4,360.3)
Issuance of common stock under employee stock plans, net of related tax benefit	4.6		266.0			266.0
December 31, 2010	377.7	$ 3.8	$ 12,862.6	$ 10,721.6	$ 224.6	$ 23,812.6

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

December 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 medical membership in the United States, serving 33.3 medical members through our affiliated health plans and a total of 69.2 individuals through all subsidiaries as of December 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 and long-term care insurance. 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 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.

During the first quarter of 2010, the U.S. Congress passed and the President signed into law the Patient Protection and Affordable Care Act, or PPACA, as well as the Health Care and Education Reconciliation Act of 2010, or HCERA, 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 credits 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 certain 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, some of which will 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

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

requirements, a requirement to cover preventive 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.

These and other provisions of the new law are likely to have significant effects on our future operations, which, in turn, could impact the value of our business model and results of operations, including potential impairments of our goodwill and other intangible assets. We will continue to evaluate the impact of this legislation as additional guidance is made available. For additional discussion, see Part I, Item 1. Regulation and Item 1A. Risk Factors in this Form 10-K.

In addition, federal and state regulatory agencies may further restrict our ability to obtain new product approvals, implement changes in premium rates or impose additional restrictions, under new or existing laws that could adversely affect our business, cash flows, financial condition and results of operations.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements include the accounts of WellPoint and its subsidiaries and have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP. All significant intercompany accounts and transactions have been eliminated in consolidation.

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.

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents: All highly liquid investments with maturities of three months or less when purchased are classified as cash equivalents.

Investments: Certain Financial Accounting Standards Board other-than-temporary impairment, or FASB OTTI, guidance applies to fixed maturity securities and provides guidance on the recognition and presentation of other-than-temporary impairments. In addition, this FASB OTTI guidance requires additional disclosures related to other-than-temporary impairments. If a fixed maturity security is in an unrealized loss position and we have the intent to sell the fixed maturity security, or it is more likely than not that we will have to sell the fixed maturity security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses recognized in income in our consolidated income statements. For impaired fixed maturity securities that we do not intend to sell or it is more likely than not that we will not have to sell such securities, but we expect that we will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in income in our consolidated income statements and the non-credit component of

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

2. Basis of Presentation and Significant Accounting Policies (continued)

the other-than-temporary impairment is recognized in other comprehensive income. Furthermore, unrealized losses entirely caused by non-credit related factors related to fixed maturity securities for which we expect to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed maturity security. The net present value is calculated by discounting our best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security at the date of acquisition. For mortgage-backed and asset-backed securities, cash flow estimates are based on assumptions regarding the underlying collateral including prepayment speeds, vintage, type of underlying asset, geographic concentrations, default rates, recoveries and changes in value. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default.

Upon adoption of the FASB OTTI guidance on April 1, 2009, we recorded a cumulative-effect adjustment, net of taxes, of $88.9 as of the beginning of the period of adoption, April 1, 2009, to reclassify the non-credit component of previously recognized other-than-temporary impairments from retained earnings to accumulated other comprehensive income.

The unrealized gains or losses on our current and long-term equity securities classified as available-for-sale are included in accumulated other comprehensive income as a separate component of shareholders equity, unless the decline in value is deemed to be other-than-temporary and we do not have the intent and ability to hold such equity securities until their full cost can be recovered, in which case such equity securities are written down to fair value and the loss is charged to other-than-temporary impairment losses recognized in income.

We maintain various rabbi trusts to account for the assets and liabilities under certain deferred compensation plans. Under these plans, the participants can defer certain types of compensation and elect to receive a return on the deferred amounts based on the changes in fair value of various investment options, primarily a variety of mutual funds. Rabbi trust assets are classified as trading, which are reported in other invested assets, current in the consolidated balance sheets. The change in the fair value of the trading portfolio rabbi trust assets during 2010, 2009 and 2008, which together with net investment income/loss from trading portfolio rabbi trust assets totaled $1.4, $1.5 and $(6.5), respectively, is classified in general and administrative expense in the consolidated statement of income, consistent with the related deferred compensation expense.

We use the equity method of accounting for investments in companies in which our ownership interest enables us to influence the operating or financial decisions of the investee company. Our proportionate share of equity in net income of these unconsolidated affiliates is reported with net investment income.

For asset-backed securities included in fixed maturity securities, we recognize income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reported with net investment income.

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.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

2. Basis of Presentation and Significant Accounting Policies (continued)

We participate in securities lending programs whereby marketable securities in our investment portfolio are transferred to independent brokers or dealers based on, among other things, their creditworthiness in exchange for cash collateral initially equal to at least 102% of the value of the securities on loan and is thereafter maintained at a minimum of 100% of the market value of the securities loaned (calculated as the ratio of initial market value of cash collateral to current market value of the securities on loan). Accordingly, the market value of the securities on loan to each borrower is monitored daily and the borrower is required to deliver additional cash collateral if the market value of the securities on loan exceeds the initial market value of cash collateral delivered. The fair value of the collateral received at the time of the transaction amounted to $ 901.5 and $396.6 during 2010 and 2009, respectively. The value of the cash collateral delivered represented 103% of the market value of the securities on loan at both December 31, 2010 and 2009. Under the FASB guidance related to accounting for transfers and servicing of financial assets and extinguishments of liabilities, we recognize the cash collateral as an asset, which is reported as securities lending collateral on our consolidated balance sheets and we record a corresponding liability for the obligation to return the cash collateral to the borrower, which is reported as securities lending payable. The securities on loan are reported in the applicable investment category on the consolidated balance sheets. Unrealized gains or losses on securities lending collateral are included in accumulated other comprehensive income as a separate component of shareholders equity.

Premium and Self-Funded Receivables: Premium and self-funded receivables include the uncollected amounts from fully-insured and self-funded groups, and are reported net of an allowance for doubtful accounts of $193.7 and $174.9 at December 31, 2010 and 2009, respectively. The allowance for doubtful accounts is based on historical collection trends and our judgment regarding the ability to collect specific accounts.

Other Receivables: Other receivables include pharmacy sales, provider advances, claims recoveries, reinsurance, government programs, proceeds due from brokers on investment trades and other miscellaneous amounts due to us. These receivables are reported net of an allowance for uncollectible amounts of $187.8 and $174.9 at December 31, 2010 and 2009, respectively, which is based on historical collection trends and our judgment regarding the ability to collect specific amounts.

Federal Income Taxes: We file a consolidated income tax return. Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and laws. The deferred tax benefits of the deferred tax assets are recognized to the extent realization of such benefits is more likely than not. Deferred income tax expense or benefit generally represents the net change in deferred income tax assets and liabilities during the year. Current income tax expense represents the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

We account for income tax contingencies in accordance with FASB guidance that contains a model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold, which all income tax positions must achieve before being recognized in the financial statements.

Property and Equipment: Property and equipment is recorded at cost, net of accumulated depreciation. Depreciation is computed principally by the straight-line method over estimated useful lives ranging from 15 to 39 years for buildings and improvements, three to seven years for furniture and equipment, and three to five years for computer software. Leasehold improvements are depreciated over the term of the related lease. Certain costs related to the development or purchase of internal-use software are capitalized and amortized.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

2. Basis of Presentation and Significant Accounting Policies (continued)

Goodwill and Other Intangible Assets: FASB guidance requires business combinations to be accounted for using the acquisitions method of accounting and it also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Goodwill represents the excess of cost of acquisition over the fair value of net assets acquired. Other intangible assets represent the values assigned to subscriber bases, provider and hospital networks, Blue Cross and Blue Shield and other trademarks, licenses, non-compete and other agreements. Goodwill and other intangible assets are allocated to reportable segments based on the relative fair value of the components of the businesses acquired.

Goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment at least annually. Furthermore, goodwill and other intangible assets are allocated to reporting units for purposes of the annual impairment test. Our impairment tests require us to make assumptions and judgments regarding the estimated fair value of our reporting units, including goodwill and other intangible assets with indefinite lives. In addition, certain other intangible assets with indefinite lives, such as trademarks, are also tested separately. Fair value is calculated using a blend of a projected income and market valuation approach. The projected income approach is developed using assumptions about future revenue, expenses and net income derived from our internal planning process. Our assumed discount rate is based on our industry s weighted average cost of capital and reflects volatility associated with the cost of equity capital. Market valuations are based on observed multiples of certain measures including membership, revenue, EBITDA (earnings before interest, taxes, depreciation and amortization) and net income as well as market capitalization analysis of WellPoint and other comparable companies. Estimated fair values developed based on our assumptions and judgments might be significantly different if other reasonable assumptions and estimates were to be used. If estimated fair values are less than the carrying values of goodwill and other intangible assets with indefinite lives in future annual impairment tests, or if significant impairment indicators are noted relative to other intangible assets subject to amortization, we may be required to record impairment losses against future income.

Derivative Financial Instruments: In March 2008, the FASB issued additional guidance for disclosures about derivative instruments and hedging activities. The additional guidance requires expanded disclosures regarding the location and amounts of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under existing FASB derivatives and hedging guidance, and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. We adopted the additional disclosure guidance on January 1, 2009 and its adoption did not have an impact on our consolidated financial position and results of operations.

We typically invest in the following types of derivative financial instruments: interest rate swaps, forward contracts, call options, credit default swaps, embedded derivatives and warrants. Derivatives embedded within non-derivative instruments (such as options embedded in convertible fixed maturity securities) are bifurcated from the host instrument when the embedded derivative is not clearly and closely related to the host instrument. Our use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which we are subject, and by our own derivative policy. Our derivative use is generally limited to hedging purposes and we generally do not use derivative instruments for speculative purposes.

We have exposure to economic losses due to interest rate risk arising from changes in the level or volatility of interest rates. We attempt to mitigate our exposure to interest rate risk through active portfolio management, which includes rebalancing our existing portfolios of assets and liabilities, as well as changing the characteristics of investments to be purchased or sold in the future. In addition, derivative financial instruments are used to modify the interest rate exposure of certain liabilities or forecasted transactions. These strategies include the use

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

2. Basis of Presentation and Significant Accounting Policies (continued)

of interest rate swaps and forward contracts, which are used to lock-in interest rates or to hedge (on an economic basis) interest rate risks associated with variable rate debt. We have used these types of instruments as designated hedges against specific liabilities.

All investments in derivatives are recorded as assets or liabilities at fair value. If certain correlation, hedge effectiveness and risk reduction criteria are met, a derivative may be specifically designated as a hedge of exposure to changes in fair value or cash flow. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the nature of any hedge designation thereon. Amounts excluded from the assessment of hedge effectiveness, if any, as well as the ineffective portion of the gain or loss, are reported in results of operations immediately. If the derivative is not designated as a hedge, the gain or loss resulting from the change in the fair value of the derivative is recognized in results of operations in the period of change.

From time to time, we may also purchase derivatives to hedge (on an economic basis) our exposure to foreign currency exchange fluctuations associated with the operations of certain of our subsidiaries. We generally use futures or forward contracts for these transactions. We generally do not designate these contracts as hedges in accordance with the guidance and, accordingly, the changes in fair value of these derivatives are recognized in income immediately.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the consolidated balance sheets. We attempt to mitigate the risk of non-performance by selecting counterparties with high credit ratings and monitoring their creditworthiness and by diversifying derivatives among multiple counterparties. At December 31, 2010, we believe there were no material concentrations of credit risk with any individual counterparty.

Our derivative agreements do not contain any credit support provisions that require us to post collateral if there are declines in the derivative value or our credit rating.

Retirement Benefits: We recognize the funded status of pension and other postretirement benefit plans on the consolidated balance sheets based on fiscal-year-end measurements of plan assets and benefit obligations. Prepaid pension benefits represent prepaid costs related to defined benefit pension plans and are reported with other noncurrent assets. Postretirement benefits represent outstanding obligations for retiree medical, life, vision and dental benefits. Liabilities for pension and other postretirement benefits are reported with current and noncurrent liabilities based on the amount by which the actuarial present value of benefits payable in the next 12 months included in the benefit obligation exceeds the fair value of plan assets.

Medical Claims Payable: Liabilities for medical claims payable include estimated provisions for incurred but not paid claims on an undiscounted basis, as well as estimated provisions for expenses related to the processing of claims. Incurred but not paid claims include (1) an estimate for claims that are incurred but not reported, as well as claims reported to us but not yet processed through our systems; and (2) claims reported to us and processed through our systems but not yet paid.

Liabilities for both claims incurred but not reported and reported but not yet processed through our systems are determined in aggregate by employing actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. Actuarial Standards of Practice require that the claim liabilities be appropriate under moderately adverse circumstances. We determine the amount of the liability for incurred but not paid claims by following a detailed actuarial process that entails using both historical claim payment patterns as well as emerging medical cost trends to project our best estimate of claim liabilities.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

2. Basis of Presentation and Significant Accounting Policies (continued)

We regularly review and set assumptions regarding cost trends and utilization when initially establishing claim liabilities. We continually monitor and adjust the claims liability and benefit expense based on subsequent paid claims activity. If our assumptions regarding cost trends and utilization are significantly different than actual results, our income statement and financial position could be impacted in future periods.

Premium deficiencies are recognized when it is probable that expected claims and administrative expenses will exceed future premiums on existing medical insurance contracts without consideration of investment income. Determination of premium deficiencies for longer duration life and disability contracts includes consideration of investment income. For purposes of premium deficiencies, contracts are deemed to be either short or long duration and are grouped in a manner consistent with our method of acquiring, servicing and measuring the profitability of such contracts. Once established, premium deficiencies are released commensurate with actual claims experience over the remaining life of the contract.

Reserves for Future Policy Benefits: Reserves for future policy benefits include liabilities for life and long-term disability insurance policy benefits based upon interest, mortality and morbidity assumptions from published actuarial tables, modified based upon our experience. Future policy benefits also include liabilities for insurance policies for which some of the premiums received in earlier years are intended to pay anticipated benefits to be incurred in future years. Future policy benefits are continually monitored and reviewed, and when reserves are adjusted, differences are reflected in benefit expense.

The current portion of reserves for future policy benefits relates to the portion of such reserves that we expect to pay within one year. We believe that our liabilities for future policy benefits, along with future premiums received are adequate to satisfy our ultimate benefit liability; however, these estimates are inherently subject to a number of variable circumstances. Consequently, the actual results could differ materially from the amounts recorded in our consolidated financial statements.

Other Policyholder Liabilities: Other policyholder liabilities include rate stabilization reserves associated with retrospectively rated insurance contracts as well as certain case-specific reserves. Rate stabilization reserves represent accumulated premiums that exceed what customers owe us based on actual claim experience. The timing of payment of these retrospectively rated refunds is based on the contractual terms with the customers and can vary from period to period based on the specific contractual requirements.

Revenue Recognition: Premiums for fully-insured contracts are recognized as revenue over the period insurance coverage is provided. Premiums applicable to the unexpired contractual coverage periods are reflected in the accompanying consolidated balance sheets as unearned income. Premiums include revenue from retrospectively rated contracts where revenue is based on the estimated ultimate loss experience of the contract. Premium revenue includes an adjustment for retrospectively rated refunds based on an estimate of incurred claims. Premium rates for certain lines of business are subject to approval by the Department of Insurance of each respective state.

Administrative fees include revenue from certain group contracts that provide for the group to be at risk for all, or with supplemental insurance arrangements, a portion of their claims experience. We charge these self-funded groups an administrative fee, which is based on the number of members in a group or the group s claim experience. In addition, administrative fees include amounts received for the administration of Medicare or certain other government programs. Under our self-funded arrangements, revenue is recognized as administrative services are performed. All benefit payments under these programs are excluded from benefit expense.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

2. Basis of Presentation and Significant Accounting Policies (continued)

Share-Based Compensation: Our compensation philosophy provides for share-based compensation, including stock options and restricted stock awards, as well as an employee stock purchase plan. Stock options are granted for a fixed number of shares with an exercise price at least equal to the fair value of the shares at the date of the grant. Restricted stock awards are issued at the fair value of the stock on the grant date. The employee stock purchase plan, which was suspended effective January 1, 2011, allowed for a purchase price per share which was 85% of the fair value of a share of common stock on the last trading day of the plan quarter. All share-based payments to employees, including grants of employee stock options and discounts associated with employee stock purchases, are recognized as compensation expense in the income statement based on their fair values. Additionally, excess tax benefits, which result from actual tax benefits exceeding deferred tax benefits previously recognized based on grant date fair value, are recognized as additional paid-in-capital and are reclassified from operating cash flows to financing cash flows in the consolidated statements of cash flows. Our share-based employee compensation plans and assumptions are described in Note 15, Capital Stock.

***Advertising costs*:** We use print, broadcast and other advertising to promote our products. The cost of advertising is expensed as incurred and totaled $226.1, $309.8 and $216.3 for the years ended December 31, 2010, 2009 and 2008, respectively.

Earnings per Share: Earnings per share amounts, on a basic and diluted basis, have been calculated based upon the weighted-average common shares outstanding for the period.

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share includes the dilutive effect of stock options and restricted stock, using the treasury stock method. The treasury stock method assumes exercise of stock options and vesting of restricted stock, with the assumed proceeds used to purchase common stock at the average market price for the period. The difference between the number of shares assumed issued and number of shares assumed purchased represents the dilutive shares.

Reclassifications: 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.

3. Business Combinations and Divestitures

In December 2007, the FASB issued guidance for business combinations and noncontrolling interests in consolidated financial statements. We adopted the FASB guidance simultaneously on January 1, 2009. Adoption of the FASB guidance did not have an impact on our consolidated financial statements; however, these new standards significantly change the accounting for and reporting of business combinations and noncontrolling (minority) interest transactions completed after January 1, 2009. In addition, some of the provisions of the FASB guidance also impact the prospective accounting for business combinations and noncontrolling interest

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

3. Business Combinations and Divestitures (continued)

transactions completed prior to January 1, 2009. Significant changes from prior practice include the requirement that the fair value of the acquirer s equity securities transferred as consideration be determined on the acquisition date; the requirement to expense acquisition related transaction and restructuring costs; the requirement that changes in acquired deferred tax valuation allowances and income tax uncertainties after the measurement period be expensed; and the need to recognize contingent consideration at its fair value on the acquisition date. The FASB guidance also requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination.

Sale of PBM Business

On December 1, 2009, we sold our pharmacy benefits management subsidiaries, or PBM business, to Express Scripts, Inc., or Express Scripts, and received $4,675.0 in cash, subject to customary working capital adjustments. The pre-tax gain on the sale was $3,792.3. We also entered into a 10-year contract for Express Scripts to provide PBM services to our members. The results of operations of our PBM business have been included in our consolidated results through November 30, 2009.

Components of the gain on sale are as follows:

Proceeds	$ 4,675.0
Book value of PBM business	(696.6)
Other transaction costs	(186.1)
Pre-tax gain on sale	3,792.3
Tax expense	(1,431.1)
Net gain on sale	$ 2,361.2

Other transaction costs include charges for systems conversions, investment banking, legal and accounting services and employee related costs.

Acquisition of DeCare Dental, LLC

On April 9, 2009, we completed our acquisition of DeCare Dental, LLC, or DeCare, a wholly-owned subsidiary of DeCare International. DeCare is one of the country s largest administrators of dental benefit plans and provides services directly and through partnerships and administrative agreements with ten dental insurance brands, primarily as a third party administrator. DeCare manages dental benefits and provides our customers with innovative dental products and enhanced customer service.

The acquisition was accounted for using the acquisition method of accounting. Accordingly, the results of operations of DeCare have been included in our consolidated results for periods following April 9, 2009.

4. Restructuring Activities

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

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

4. Restructuring Activities (continued)

The 2010 restructuring activities were initiated as a result of a change in strategic focus primarily in response to health care reform. Activity related to these liabilities for the year ended December 31, 2010 is as follows:

	Commercial	Consumer	Other	Total
2010 Restructuring Activities				
Employee termination costs:				
Costs incurred	$ 53.6	$ 19.2	$ 5.0	$ 77.8
Payments	(0.5)	(0.2)	(0.1)	(0.8)
Liability for employee termination costs ending balance at December 31, 2010	53.1	19.0	4.9	77.0
Lease and other contract exit costs:				
Costs incurred	15.7	4.7	2.2	22.6
Payments	(1.3)	(0.4)	(0.3)	(2.0)
Liability for lease and other contract exit costs ending balance at December 31, 2010	14.4	4.3	1.9	20.6
Total liability for 2010 restructuring activities ending balance at December 31, 2010	$ 67.5	$ 23.3	$ 6.8	$ 97.6

The 2009 restructuring activities were executed as a result of a strategic realignment to our corporate strategy. Activity related to these liabilities for the years ended December 31, 2010 and 2009 is as follows:

	Commercial	Consumer	Other	Total
2009 Restructuring Activities				
Employee termination costs:				
Costs incurred in 2009	$ 93.1	$ 20.3	$ 10.3	$ 123.7
2009 payments	(3.4)	(0.7)	(0.4)	(4.5)
Liability for employee termination costs ending balance at December 31, 2009	89.7	19.6	9.9	119.2
2010 payments	(56.0)	(12.2)	(6.2)	(74.4)
Liability released in 2010	(21.7)	(4.7)	(2.4)	(28.8)
Liability for employee termination costs ending balance at December 31, 2010	12.0	2.7	1.3	16.0
Lease and other contract exit costs:				

Costs incurred in 2009	33.9	3.3	10.7	47.9
2009 payments	(2.1)	(0.1)	(1.6)	(3.8)
Liability for lease and other contract exit costs ending balance at December 31, 2009	31.8	3.2	9.1	44.1
2010 payments	(4.4)	(0.2)	(0.4)	(5.0)
Liability for lease and other contract exit costs ending balance at December 31, 2010	27.4	3.0	8.7	39.1
Total liability for 2009 restructuring activities ending balance at December 31, 2010	$ 39.4	$ 5.7	$ 10.0	$ 55.1

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

4. Restructuring Activities (continued)

In addition, during 2010 we recognized $40.5 of impairments for information technology assets related to our change in strategic focus primarily in response to health care reform. The impairments are a component of general and administrative expenses on the consolidated statement of income.

5. Investments

A summary of current and long-term investments, available-for-sale, is as follows:

			Gross Unrealized Losses			Non-Credit Component of Other-Than-Temporary
	Cost or Amortized Cost	Gross Unrealized Gains	12 Months or Less	Greater than 12 Months	Estimated Fair Value	Impairments Recognized in AOCI
December 31, 2010:						
Fixed maturity securities:						
United States Government securities	$ 500.9	$ 14.1	$ (3.6)	$	$ 511.4	$
Government sponsored securities	325.6	6.0	(0.8)		330.8	
States, municipalities and political subdivisions tax-exempt	4,630.2	130.5	(38.9)	(29.6)	4,692.2	
Corporate securities	6,850.1	385.1	(16.9)	(7.1)	7,211.2	(0.8)
Options embedded in convertible debt securities	108.3				108.3	
Residential mortgage-backed securities	2,747.2	113. 7	(9.0)	(15.4)	2,836.5	(6.2)
Commercial mortgage-backed securities	330.9	9.2	(1.5)	(2.2)	336.4	
Other debt obligations	268.0	6.2	(0.3)	(9.4)	264.5	(2.1)
Total fixed maturity securities	15,761.2	664.8	(71.0)	(63.7)	16,291.3	$ (9.1)
Equity securities	894.2	383.2	(7.8)		1,269.6	

Total investments, available-for-sale	$ 16,655.4	$ 1,048.0	$ (78.8)	$ (63.7)	$ 17,560.9	
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	
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	318.3	8.7	(1.1)	(21.9)	304.0	(5.7)
Total fixed maturity securities	15,426.1	674.6	(30.5)	(142.9)	15,927.3	$ (18.5)
Equity securities	832.5	221.9	(11.2)		1,043.2	
Total investments, available-for-sale	$ 16,258.6	$ 896.5	$ (41.7)	$ (142.9)	$ 16,970.5	

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

At December 31, 2010, we owned $3,172.9 of mortgage-backed securities and $264.5 of asset-backed securities out of a total available-for-sale investment portfolio of $17,560.9. These securities included sub-prime and Alt-A securities with fair values of $78.6 and $244.7, respectively. These sub-prime and Alt-A securities had net unrealized losses of $5.1 and $6.3, respectively. The average credit rating of the sub-prime and Alt-A securities was BBB and B, respectively.

The following table summarizes for fixed maturity securities and equity securities in an unrealized loss position at December 31, 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 numbers)	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
December 31, 2010:						
Fixed maturity securities:						
United States Government securities	23	$ 142.9	$ (3.6)		$	$
Government sponsored securities	24	103.5	(0.8)			
States, municipalities and political subdivisions tax-exempt	449	1,493.1	(38.9)	101	166.1	(29.6)
Corporate securities	742	1,436.3	(16.9)	65	92.9	(7.1)
Residential mortgage-backed securities	279	512.6	(9.0)	82	149.9	(15.4)
Commercial mortgage-backed securities	34	107.5	(1.5)	3	8.1	(2.2)
Other debt obligations	28	60.9	(0.3)	38	46.4	(9.4)
Total fixed maturity securities	1,579	3,856.8	(71.0)	289	463.4	(63.7)
Equity securities	365	81.6	(7.8)			
Total fixed maturity and equity securities	1,944	$ 3,938.4	$ (78.8)	289	$ 463.4	$ (63.7)
December 31, 2009:						
Fixed maturity securities:						
United States Government securities	18	$ 286.8	$ (2.4)	3	$ 3.1	$ (0.2)
Government sponsored securities	17	149.3	(0.4)			
States, municipalities and political subdivisions tax-exempt	162	417.6	(5.7)	185	314.8	(34.4)
Corporate securities	462	914.5	(12.9)	233	404.3	(34.5)
Residential mortgage-backed securities	219	439.0	(7.9)	128	256.1	(47.0)
Commercial mortgage-backed securities	7	9.8	(0.1)	14	39.9	(4.9)
Other debt obligations	24	112.5	(1.1)	49	61.0	(21.9)
Total fixed maturity securities	909	2,329.5	(30.5)	612	1,079.2	(142.9)

Equity securities	788	99.0	(11.2)			
Total fixed maturity and equity securities	1,697	$ 2,428.5	$ (41.7)	612	$ 1,079.2	$ (142.9)

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

The weighted average credit rating of our fixed maturity securities was A as of December 31, 2010. We review our investment portfolios under our existing impairment review policy. Given the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

The amortized cost and fair value of fixed maturity securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities may be less than 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	$ 1,081.5	$ 1,094.4
Due after one year through five years	5,145.5	5,376.5
Due after five years through ten years	4,127.0	4,296.0
Due after ten years	2,329.1	2,351.5
Mortgage-backed securities	3,078.1	3,172.9
Total available-for-sale fixed maturity securities	$ 15,761.2	$ 16,291.3

The major categories of net investment income for the years ended December 31 are as follows:

	2010	2009	2008
Fixed maturity securities	$ 740.7	$ 796.0	$ 805.2
Equity securities	29.6	25.9	60.8
Cash and cash equivalents	8.3	15.0	69.4
Other	61.9	(2.7)	(55.0)
Investment income	840.5	834.2	880.4
Investment expense	(37.2)	(33.2)	(29.3)
Net investment income	$ 803.3	$ 801.0	$ 851.1

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

Net realized investment gains/losses and net change in unrealized appreciation/depreciation in investments for the years ended December 31, are as follows:

	2010	2009	2008
Net realized gains/losses on investments:			
Fixed maturity securities:			
Gross realized gains from sales	$ 268.1	$ 158.3	$ 37.7
Gross realized losses from sales	(39.1)	(135.5)	(84.6)
Net realized gains/losses from sales of fixed maturity securities	229.0	22.8	(46.9)
Equity securities:			
Gross realized gains from sales	57.7	116.5	143.1
Gross realized losses from sales	(81.4)	(81.5)	(114.8)
Net realized gains/losses from sales of equity securities	(23.7)	35.0	28.3
Other realized gains/losses on investments	(11.2)	(1.4)	47.3
Net realized gains on investments	194.1	56.4	28.7
Other-than-temporary impairment losses recognized in income:			
Fixed maturity securities	(24.4)	(217.6)	(479.8)
Equity securities	(15.0)	(232.6)	(728.1)
Other-than-temporary impairment losses recognized in income	(39.4)	(450.2)	(1,207.9)
Change in net unrealized gains/losses on investments:			
Cumulative effect of adoption of FASB OTTI guidance		(143.1)	
Fixed maturity securities	29.7	1,209.1	(669.5)
Equity securities	164.7	419.7	(371.7)
Total change in net unrealized gains/losses on investments	194.4	1,485.7	(1,041.2)
Deferred income tax (expense) benefit	(54.6)	(540.1)	378.8
Net change in net unrealized gains/losses on investments	139.8	945.6	(662.4)
Net realized gains/losses on investments, other-than-temporary impairment losses recognized in income and net change in net unrealized gains/losses on investments	$ 294.5	$ 551.8	$ (1,841.6)

During the year ended December 31, 2010, we sold $7,413.0 of fixed maturity and equity securities which resulted in gross realized losses of $120.5. 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.

A significant judgment in the valuation of investments is the determination of when an other-than-temporary decline in value has occurred. We follow a consistent and systematic process for recognizing impairments on securities that sustain other-than-temporary declines in value. We have established a committee responsible for the impairment review process. The decision to impair a security incorporates both quantitative criteria and qualitative information. The impairment review process considers a number of factors including, but not limited to: (i) the length of time and the extent to which the fair value has been less than book value, (ii) the financial condition and near term prospects of the issuer, (iii) our intent and ability to retain impaired equity security investments for a period of time sufficient to allow for any anticipated recovery in fair value, (iv) our intent to

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

sell or the likelihood that we will need to sell a fixed maturity security before recovery of its amortized cost basis, (v) whether the debtor is current on interest and principal payments, (vi) the reasons for the decline in value (i.e., credit event compared to liquidity, general credit spread widening, currency exchange rate or interest rate factors) and (vii) general market conditions and industry or sector specific factors. For securities that are deemed to be other-than-temporarily impaired, the security is adjusted to fair value and the resulting losses are recognized in realized gains or losses in the consolidated statements of income. The new cost basis of the impaired securities is not increased for future recoveries in fair value.

Other-than-temporary impairments recorded in 2010 and 2009 were primarily the result of the continued credit deterioration on specific issuers in the bond markets and certain equity securities fair value remaining below cost for an extended period of time. There were no individually significant other-than-temporary impairment losses on investments by issuer during 2010 or 2009.

The significant other-than-temporary impairments recognized during 2008 primarily related to our investments in Federal Home Loan Mortgage Corporation, or Freddie Mac, Federal National Mortgage Association, or Fannie Mae, and Lehman Brothers Holdings Inc., or Lehman (or their respective subsidiaries, as appropriate), as discussed below.

Market concerns during the third quarter of 2008 related to Freddie Mac s and Fannie Mae s financial condition and liquidity prompted the U.S. government to seize control of those entities. Any potential recovery of the fair value of these securities was dependent on a number of factors and was not expected in the near term. These facts, together with the significant declines in the fair value of these securities, led us to conclude that they were other-than-temporarily impaired. Accordingly, during 2008, we recorded $135.0 and $106.6 of realized losses from other-than-temporary impairments related to our equity security investments in Freddie Mac and Fannie Mae, respectively. In addition, on September 15, 2008, Lehman filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Accordingly, recovery of our investments, if any, was deemed remote and we recognized an other-than-temporary impairment of $90.2 during 2008.

In addition, other-than-temporary impairments recognized in 2008 included charges for fixed maturity securities and equity securities for which, due to credit downgrades and/or the extent and duration of their decline in fair value in light of the then current market conditions, we determined that the impairment was deemed other-than-temporary. These securities covered a number of industries, led by the banking and financial services sectors.

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 years ended December 31, 2010 or 2009.

A primary objective in the management of the fixed maturity and equity portfolios is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities as well as tax considerations. Sales will generally produce realized gains and losses.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in these risk factors in the near term could have an adverse material impact on our results of operations or shareholders equity.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

At December 31, 2010 and 2009, no investments exceeded 10% of shareholders equity.

The carrying value of fixed maturity investments that did not produce income during 2010 and 2009 was $13.0 and $22.4 at December 31, 2010 and 2009, respectively.

As of December 31, 2010 we had committed approximately $225.8 to future capital calls from various third-party investments in exchange for an ownership interest in the related entity.

At December 31, 2010 and 2009, securities with carrying values of approximately $221.8 and $230.4, respectively, were deposited by our insurance subsidiaries under requirements of regulatory authorities.

During 2010, 2009 and 2008, we entered into securities lending programs. Securities on loan are included in the investment captions shown on the accompanying consolidated balance sheets. Under these programs, brokers and dealers who borrow securities are required to deliver substantially the same security upon completion of the transaction. The fair value of the collateral at December 31, 2010 and 2009 was $900.3 and $394.8, respectively. Income earned on security lending transactions for the years ended December 31, 2010, 2009 and 2008 was $1.9, $1.8 and $4.9, respectively.

6. Derivative Financial Instruments

A summary of the aggregate contractual or notional amounts and estimated fair values related to derivative financial instruments is as follows:

	Contractual/ Notional Amount	Balance Sheet Location	Estimated Fair Value Asset	(Liability)
December 31, 2010				
Hedging instruments				
Swaps	$ 1,505.0	Other noncurrent assets/Other noncurrent liabilities	$ 95.3	$
Non-hedging instruments				

Derivatives embedded in convertible debt securities	389.8	Fixed maturity securities	108.3	
Credit default swaps	29.8	Equity securities		(1.5)
Options	5,682.0	Equity securities	192.6	(215.0)
Subtotal non-hedging	6,101.6		300.9	(216.5)
Total derivatives	$ 7,606.6		$ 396.2	$ (216.5)
December 31, 2009				
Hedging instruments				
Swaps	$ 1,775.0	Other noncurrent assets/Other noncurrent liabilities	$ 85.1	$ (0.3)
Non-hedging instruments				
Derivatives embedded in convertible debt securities	359.5	Fixed maturity securities	88.3	
Credit default swaps	19.3	Equity securities		(0.2)
Subtotal non-hedging	378.8		88.3	(0.2)
Total derivatives	$ 2,153.8		$ 173.4	$ (0.5)

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

6. Derivative Financial Instruments (continued)

Fair Value Hedges

During the year ended December 31, 2010, we entered into a fair value hedge with a total notional value of $25.0. The hedge is an interest rate swap agreement to receive a fixed rate of 5.250% and pay a LIBOR-based floating rate and expires on January 15, 2016.

During the year ended December 31, 2009, we entered into a fair value hedge with a total notional value of $600.0. The hedge is an interest rate swap agreement to receive a fixed 5.000% rate and pay a LIBOR-based floating rate. The hedge was outstanding at December 31, 2010 and expired on its scheduled maturity date of January 15, 2011.

During the year ended December 31, 2008, we terminated two interest rate swaps of our fixed rate debt for which the counterparty was Lehman. As described in Note 5, Investments, Lehman filed for bankruptcy protection on September 15, 2008. We recognized a $2.1 impairment of these fair value hedges as net realized losses on investments during the year ended December 31, 2008.

During the year ended December 31, 2006, we entered into two fair value hedges with a total notional value of $440.0. The first hedge is a $240.0 notional amount interest rate swap agreement to receive a fixed 6.800% rate and pay a LIBOR-based floating rate and expires on August 1, 2012. The second hedge is a $200.0 notional amount interest rate swap agreement to receive a fixed 5.000% rate and pay a LIBOR-based floating rate and expires on December 15, 2014.

During the year ended December 31, 2005, we entered into two fair value hedges with a total notional value of $660.0, which was subsequently reduced to $440.0 during 2008. The first hedge is a $240.0 notional amount interest rate swap agreement to exchange a fixed 6.800% rate for a LIBOR-based floating rate and expires on August 1, 2012. The second hedge is a $200.0 notional amount interest rate swap agreement to exchange a fixed 5.000% rate for LIBOR-based floating rate and expires December 15, 2014.

A summary of the effect of fair value hedges on our income statement for the years ended December 31, 2010 and 2009 is as follows:

Type of Fair Value Hedge	Income Statement Location of Hedge Gain (Loss)	Hedge Gain (Loss) Recognized	Hedged Item	Income Statement Location of Hedged Item Gain (Loss)	Hedged Item Gain (Loss) Recognized

Year ended December 31, 2010:							
Swaps	Interest expense	$	44.8	Fixed rate debt	Interest expense	$	(44.8)
Year ended December 31, 2009:							
Swaps	Interest expense	$	38.0	Fixed rate debt	Interest expense	$	(38.0)

Cash Flow Hedges

During 2010, we entered into forward starting pay fixed interest rate swaps with a notional amount of $650.0. The objective of these hedges was to eliminate the variability of cash flows in the interest payments on the debt securities issued in August 2010. These swaps were terminated in August 2010, and we paid a net $24.0, the net fair value at the time of termination. In addition, we recorded a loss of $15.6, net of tax, in other comprehensive income.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

6. Derivative Financial Instruments (continued)

Following the August 12, 2010 issuance of debt securities, the unamortized fair value of the forward starting pay fixed swaps included in accumulated other comprehensive income began amortizing into earnings, as an increase to interest expense. In addition, we have amounts recorded in accumulated other comprehensive income for certain forward starting pay fixed swaps that were terminated in prior years. The hedged debt securities have maturity dates ranging from 2014 to 2040.

Beginning in the fourth quarter of 2009 and continuing into the second quarter of 2010, we entered into a series of forward starting pay fixed interest rate swaps with a total combined notional amount of $250.0. The objective of this series of hedges was to eliminate the variability of the cash flows associated with interest payments on our senior term loan. We agreed to receive a LIBOR-based floating rate and pay a fixed rate. The swaps began to expire on a monthly basis starting on April 30, 2010 and the final swap in the series expired at maturity on September 30, 2010.

In January 2009, we entered into forward starting pay fixed swaps with an aggregate notional amount of $800.0. The objective of these hedges was to eliminate the variability of cash flows in the interest payments on the debt securities issued in February 2009. These swaps were terminated in February 2009, and we paid a net $3.2, the net fair value at the time of termination. In addition, we recorded a loss of $2.1, net of tax, in other comprehensive income. Following the February 5, 2009 issuance of debt securities, the unamortized fair value of the forward starting pay fixed swaps included in accumulated other comprehensive income began amortizing into earnings, as an increase to interest expense. The hedged debt securities have maturity dates ranging from 2014 to 2036.

The unrecognized loss for cash flow hedges included in accumulated other comprehensive income at December 31, 2010 and 2009 was $25.3 and $10.8, respectively. As of December 31, 2010, the total amount of amortization over the next twelve months for all cash flow hedges will decrease interest expense by approximately $2.3.

A summary of the effect of cash flow hedges on our financial statements for the years ended December 31, 2010 and 2009 is as follows:

	Effective Portion			Ineffective Portion Income	
Type of Cash Flow Hedge	Pretax Hedge Gain (Loss) Recognized in Other Comprehensive Income	Income Statement Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Hedge Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Statement Location of Gain (Loss) Recognized	Hedge Gain (Loss) Recognized

Year ended December 31, 2010:						
Forward starting pay fixed swaps	$ (24.0)	Interest expense	$	(1.2)	None	$
Year ended December 31, 2009:						
Forward starting pay fixed swaps	$ (3.5)	Interest expense	$		None	$
Other fixed pay swaps	$	Interest expense	$	0.2	None	$

We test for cash flow hedge effectiveness at hedge inception and re-assess at the end of each reporting period. No amounts were excluded from the assessment of hedge effectiveness.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

6. Derivative Financial Instruments (continued)

Non-Hedging Derivatives

A summary of the effect of non-hedging derivatives on our income statement for the years ended December 31, 2010 and 2009 is as follows:

Type of Non-hedging Derivatives	Income Statement Location of Gain (Loss) Recognized	Derivative Gain (Loss) Recognized
Year ended December 31, 2010:		
Derivatives embedded in convertible debt securities	Net realized gains (losses) on investments	$ 24.3
Credit default swaps	Net realized gains (losses) on investments	(2.0)
Options	Net realized gains (losses) on investments	(62.9)
Total		$ (40.6)
Year ended December 31, 2009:		
Derivatives embedded in convertible debt securities	Net realized gains (losses) on investments	$ 44.0
Credit default swaps	Net realized gains (losses) on investments	(1.0)
Options	Net realized gains (losses) on investments	(5.6)
Futures	Net realized gains (losses) on investments	3.3
Foreign currency derivatives	Net realized gains (losses) on investments	1.2
Total		$ 41.9

7. 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.

Transfers between levels, if any, are recorded as of the beginning of the reporting period.

The following methods and assumptions were used to determine the fair value of each class of 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 consider all cash equivalents as Level I.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

7. Fair Value (continued)

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 residential 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. 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 and other fixed maturity securities, that are designated Level III securities. For these securities, the valuation methodologies may incorporate broker quotes or assumptions for benchmark yields, credit spreads, default rates and prepayment speeds 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. In addition, we invest in certain put and call options for which quoted market prices are not available and fair value is estimated based on inputs such as spot rates, interest rates, dividend rates and volatility assumptions, which are observable in the equity markets. These securities are also 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.

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.

We 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. 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. 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 years ended December 31, 2010 and 2009 that were material to the consolidated financial statements.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

7. Fair Value (continued)

In addition, the following methods and assumptions were used to determine the fair value of each class of pension benefit plan assets and other benefit plan assets not defined above (see Note 11, Retirement Benefits, for fair values of benefit plan assets):

Mutual funds: Fair values are based on quoted market prices, which represent the net asset value, or NAV, of shares held.

Common and collective trusts: Fair values of common/collective trusts that replicate traded money market funds are based on cost, which approximates fair value. Fair values of common/collective trusts that invest in securities are valued at the NAV of the shares held, where the trust applies fair value measurements to the underlying investments to determine the NAV.

Partnership interests: Fair values are estimated based on the plan s proportionate share of the undistributed partners capital as reported in audited financial statements of the partnership.

Contract with insurance company: Fair value of the contract in the insurance company general investment account is determined by the insurance company based on the fair value of the underlying investments of the account.

Investment in DOL 103-12 trust: Fair value is based on the plan s proportionate share of the fair value of investments held by the trust, qualified as a Department of Labor Regulation 2520.103-12 entity, or DOL 103-12 trust, as reported in audited financial statements of the trust, where the trustee applies fair value measurements to the underlying investments of the trust.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

7. Fair Value (continued)

A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis is as follows:

	Level I	Level II	Level III	Total
December 31, 2010:				
Assets:				
Cash equivalents	$ 1,374.9	$	$	$ 1,374.9
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	511.4			511.4
Government sponsored securities		330.8		330.8
States, municipalities and political subdivisions tax-exempt		4,692.2		4,692.2
Corporate securities		6,932.8	278.4	7,211.2
Options embedded in convertible debt securities		108.3		108.3
Residential mortgage-backed securities		2,832.7	3.8	2,836.5
Commercial mortgage-backed securities		328.6	7.8	336.4
Other debt obligations		183.1	81.4	264.5
Total fixed maturity securities	511.4	15,408.5	371.4	16,291.3
Equity securities	1,202.3	50.0	17.3	1,269.6
Other invested assets, current	21.1			21.1
Securities lending collateral	355.7	544.6		900.3
Derivatives excluding embedded options (reported with other noncurrent assets)		95.3		95.3
Total	$ 3,465.4	$ 16,098.4	$ 388.7	$ 19,952.5
December 31, 2009:				
Assets:				
Cash equivalents	$ 4,461.0	$	$	$ 4,461.0
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	727.6			727.6
Government sponsored securities		640.7		640.7
States, municipalities and political subdivisions tax-exempt		4,146.3		4,146.3
Corporate securities		6,292.4	231.7	6,524.1
Options embedded in convertible debt securities		88.3		88.3
Residential mortgage-backed securities		3,358.1	2.0	3,360.1
Commercial mortgage-backed securities		129.1	7.1	136.2
Other debt obligations		198.0	106.0	304.0
Total fixed maturity securities	727.6	14,852.9	346.8	15,927.3
Equity securities	980.4	58.3	4.5	1,043.2
Other invested assets, current	26.5			26.5

Securities lending collateral	305.3	89.5		394.8
Derivatives excluding embedded options (reported with other noncurrent assets)		85.1		85.1
Total	$ 6,500.8	$ 15,085.8	$ 351.3	$ 21,937.9
Liabilities:				
Derivatives (reported with other noncurrent liabilities)	$	$ (0.3)	$	$ (0.3)

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

7. Fair Value (continued)

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the years ended December 31, 2010, 2009 and 2008 is as follows:

	Corporate Securities	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Other Debt Obligations	States, Municipalities and Political Subdivisions-tax-exempt	Equity Securities	Total
Year Ended December 31, 2010:							
Beginning balance at January 1, 2010	$ 231.7	$ 2.0	$ 7.1	$ 106.0	$	$ 4.5	$ 351.3
Total gains (losses):							
Recognized in net income	(6.6)			(3.9)		(2.9)	(13.4)
Recognized in accumulated other comprehensive income	18.7		1.7	13.2		2.0	35.6
Purchases, sales, issuances and settlements, net	(18.0)	1.8	(1.0)	(33.9)		0.7	(50.4)
Transfers into Level III	52.6					13.0	65.6
Transfers out of Level III							
Ending balance at December 31, 2010	$ 278.4	$ 3.8	$ 7.8	$ 81.4	$	$ 17.3	$ 388.7
Change in unrealized losses included in net income related to assets still held for the year ended December 31, 2010	$ (6.9)	$	$	$ (1.1)	$	$ (2.6)	$ (10.6)
Year Ended December 31, 2009:							
Beginning balance at January 1, 2009	$ 191.1	$ 7.0	$ 9.7	$ 138.7	$	$ 11.2	$ 357.7
Total gains (losses):							
Recognized in net income	(4.6)	(1.7)	0.2	(50.7)		(1.2)	(58.0)
Recognized in accumulated other comprehensive income	30.1	1.2	(1.5)	46.5		(0.3)	76.0
Purchases, sales, issuances and settlements, net	(11.4)	(4.5)	(1.3)	(29.6)		(5.2)	(52.0)
Transfers into Level III	48.7			4.9			53.6
Transfers out of Level III	(22.2)			(3.8)			(26.0)
Ending balance at December 31, 2009	$ 231.7	$ 2.0	$ 7.1	$ 106.0	$	$ 4.5	$ 351.3
Change in unrealized losses included in net income related to assets still held for the year ended December 31, 2009	$ (3.4)	$	$	$ (39.9)	$	$	$ (43.3)
Year Ended December 31, 2008:							
Beginning balance at January 1, 2008	$ 0.9	$	$	$	$	$ 6.1	$ 7.0
Total gains (losses):							
Recognized in net income	(20.0)			(25.3)		(0.3)	(45.6)

Recognized in accumulated other comprehensive income	(0.9)	(3.3)	0.3	(33.0)		(0.7)	(37.6)
Purchases, sales, issuances and settlements, net	(6.8)		(3.1)	(22.3)	(10.9)	0.1	(43.0)
Transfers into Level III	270.5	13.6	12.5	221.1	109.0	6.0	632.7
Transfers out of Level III	(52.6)	(3.3)		(1.8)	(98.1)		(155.8)
Ending balance at December 31, 2008	$ 191.1	$ 7.0	$ 9.7	$ 138.7	$	$ 11.2	$ 357.7
Change in unrealized losses included in net income related to assets still held for the year ended December 31, 2008	$ (20.1)	$	$	$ (24.3)	$	$	$ (44.4)

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

7. Fair Value (continued)

There were no material transfers between Levels I, II and III during the years ended December 31, 2010 and 2009.

During 2008, certain securities, primarily certain corporate inverse floating rate securities, structured securities and municipal bonds were thinly traded or not traded at all due to concerns in the securities markets and resulting lack of liquidity. In addition, one or more of the inputs used to determine the securities fair value, including, but not limited to, prepayment speeds, credit spreads, default rates and benchmark yields, became unobservable, and the fair values of those securities were estimated using internal estimates for those unobservable inputs.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. We completed our acquisition of DeCare on April 9, 2009. On that date, we acquired net assets with a fair value of $82.8 and recorded goodwill with a fair value of $15.0, which was subsequently reduced to $14.4 resulting from purchase accounting adjustments. The net assets acquired and resulting goodwill were recorded at fair value using Level III inputs. The fair value of the net assets acquired was internally estimated based on a blend of the income approach and market value approach. Refer to Note 10, Goodwill and Other Intangible Assets, for disclosure of additional assets measured at fair value on a nonrecurring basis during the year ended December 31, 2009.

Whenever possible, we attempt to obtain quoted market prices to estimate fair values for recognition and disclosure purposes. Where quoted market prices are not available, fair values are estimated using present value 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 have not been considered in estimating fair values.

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

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

The carrying amounts reported in the consolidated balance sheets for cash, accrued investment income, premium and self-funded receivables, other receivables, unearned income, accounts payable and accrued expenses, income taxes 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 and assumptions 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

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

7. Fair Value (continued)

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 are the cash surrender value as reported by the respective insurer.

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 were available, on the current rates estimated to be available to us for debt of similar terms and remaining maturities.

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

Long-term debt notes, term loan and capital leases: The fair value of notes and amounts due under our senior term loan is based on quoted market prices for the same or similar debt, or, if no quoted market prices were available, on the current rates estimated to be available to us for debt of similar terms and remaining maturities. Capital leases are carried at the unamortized present value of the minimum lease payments, which approximates fair value.

The carrying values and estimated fair values of financial instruments not recorded at fair value on our consolidated balance sheets at December 31 are as follows:

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Other invested assets, long-term	$ 865.4	$ 865.4	$ 775.3	$ 775.3
Liabilities:				
Debt:				
Short-term borrowings	100.0	100.0		
Commercial paper	336.2	336.2	500.6	500.6
Notes, term loan and capital leases	8,517.5	9,010.6	7,898.5	8,128.8

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

8. Income Taxes

The components of deferred income taxes at December 31 are as follows:

	2010	2009
Deferred tax assets relating to:		
Retirement benefits	$ 354.8	$ 425.9
Accrued expenses	495.3	551.5
Alternative minimum tax and other credits	5.4	5.6
Insurance reserves	201.4	227.3
Net operating loss carryforwards	35.4	42.9
Bad debt reserves	121.0	110.0
Depreciation and amortization	4.0	4.4
State income tax	46.3	51.8
Deferred compensation	66.9	78.6
Investment basis difference	180.5	179.2
Other	70.6	58.5
Total deferred tax assets	1,581.6	1,735.7
Valuation allowance	(11.0)	(11.2)
Total deferred tax assets, net of valuation allowance	1,570.6	1,724.5
Deferred tax liabilities relating to:		
Unrealized gains on securities	317.2	263.1
Acquisition related:		
Goodwill and other acquisition related liabilities	39.7	30.3
Trademarks and other non-amortizable intangibles	2,095.5	2,122.8
Subscriber base, provider and hospital networks	519.6	623.3
Internally developed software and other amortization differences	333.2	264.2
Investment basis difference		1.8
Retirement benefits	190.9	197.8
State deferred tax	37.6	43.0
Other	162.9	124.8
Total deferred tax liabilities	3,696.6	3,671.1
Net deferred tax liability	$ (2,126.0)	$ (1,946.6)
Deferred tax asset current	$ 460.9	$ 523.8
Deferred tax liability noncurrent	(2,586.9)	(2,470.4)
Net deferred tax liability	$ (2,126.0)	$ (1,946.6)

The valuation allowance is primarily attributable to the uncertainty of alternative minimum tax credits and net operating loss carryforwards. As deferred tax assets related to these types of deductions are recognized in the tax return, the valuation allowance is no longer required and is reduced.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

Significant components of the provision for income taxes for the years ended December 31, consist of the following:

	2010	2009	2008
Current tax expense:			
Federal	$ 1,329.5	$ 2,516.2	$ 1,506.7
State and local	28.5	87.1	125.9
Total current tax expense	1,358.0	2,603.3	1,632.6
Deferred tax expense (benefit)	108.7	53.8	(1,000.9)
Total income tax expense	$ 1,466.7	$ 2,657.1	$ 631.7

A reconciliation of income tax expense recorded in the consolidated statements of income and amounts computed at the statutory federal income tax rate for the years ended December 31, is as follows:

	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
Amount at statutory rate	$ 1,523.8	35.0%	$ 2,591.0	35.0%	$ 1,092.8	35.0%
State and local income taxes net of federal tax benefit	42.8	1.0	82.4	1.1	36.2	1.2
Tax exempt interest and dividends received deduction	(53.0)	(1.2)	(51.7)	(0.7)	(54.6)	(1.8)
Audit settlements	(18.1)	(0.4)	(12.9)	(0.2)	(480.6)	(15.4)
Sale of PBM			73.4	1.0		
Other, net	(28.8)	(0.7)	(25.1)	(0.3)	37.9	1.2
Total income tax expense	$ 1,466.7	33.7%	$ 2,657.1	35.9%	$ 631.7	20.2%

During the year ended December 31, 2009, we completed the sale of our PBM business and recorded tax expense of $1,431.1 related to this sale. The components of the tax on the sale were $1,327.3 computed at the statutory federal rate, $30.4 for state and local taxes and $73.4 for other tax adjustments.

During the year ended December 31, 2008, we settled disputes with the Internal Revenue Service, or IRS, relating to certain tax years and involving industry issues which we had been discussing with the IRS for several years. The industry issues primarily related to the deduction of intangible assets provided in the Tax Reform Act of 1986 and the special deduction allowable to Blue Cross Blue Shield plans under certain

circumstances. As a result of these settlements, gross unrecognized tax benefits were reduced by $391.1 and the consolidated results of operations were benefited by $289.5 through a reduction in income tax expense.

During the year ended December 31, 2008, our state deferred tax liabilities decreased by $49.7, resulting in a tax benefit, net of federal taxes of $32.3. This resulted from a lower effective tax rate due to changes in the composition of the apportionment factors in our combined state income tax returns.

We account for income tax contingencies in accordance with FASB guidance related to uncertainty in tax positions, which clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

The change in the carrying amount of gross unrecognized tax benefits from uncertain tax positions for the years ended December 31, is as follows:

	2010	2009
Balance at January 1	$ 116.4	$ 159.1
Additions for tax positions related to:		
Current year	4.6	6.3
Prior years	0.5	2.9
Reductions related to:		
Tax positions of prior year	(13.0)	(20.3)
Settlements with taxing authorities	(8.1)	(31.6)
Balance at December 31	$ 100.4	$ 116.4

The table above excludes interest, net of related tax benefits, which is treated as income tax expense (benefit) under our accounting policy. The interest is included in the amounts described in the following paragraph.

As of December 31, 2010, $89.5 of unrecognized tax benefits would impact our effective tax rate in future periods, if recognized. Also included is $3.4 that would be recognized as an adjustment to additional paid-in capital and would not affect our effective tax rate. The December 31, 2010 balance includes $2.8 of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Excluding the impact of interest and penalties, the disallowance of the shorter deductibility period would not affect our effective tax rate, but would accelerate the payment of cash to the taxing authority to an earlier period.

For the years ended December 31, 2010, 2009 and 2008, we recognized approximately $(2.9), $(0.9) and $(139.3) in interest, respectively. The interest in 2010 is comprised of interest recorded in the income statement of $(1.7) and interest reclassified to a liability account of $(1.2). We had accrued approximately $24.8 and $28.1 for the payment of interest at December 31, 2010 and 2009, respectively.

As of December 31, 2010, as further described below, certain tax years remain open to examination by the IRS and various state and local authorities. In addition, we continue to discuss certain industry issues with the IRS. As a result of these examinations and discussions, we have recorded amounts for uncertain tax positions. It is anticipated that the amount of unrecognized tax benefits will change in the next twelve months due to possible settlements of audits and changes in temporary items. However, the ultimate resolution of these items is dependent on a number of factors, such as completion of negotiations with taxing authorities, the outcome of litigation and settlement of industry issues. While it is difficult to determine when other tax settlements will actually occur, it is reasonably possible that one could occur in the next twelve months and

our unrecognized tax benefits could change within a range of approximately $(45.0) to $5.0.

We are a member of the IRS Compliance Assurance Program, or CAP. The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of tax returns prior to filing, thereby reducing or eliminating the need for post-filing examinations.

As of December 31, 2010, the examinations of our 2009 through 2004 tax years continue to be in process. In addition, there are several years with ongoing disputes related to pre-acquisition companies that continue to be in

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

process. Many of the issues in open tax years have been resolved; however, several of the examinations still require approval from the Joint Committee on Taxation before they can be finalized. The years under audit are in part interdependent on the settlement of the pre-acquisition audits, some of which require the approval of the Joint Committee on Taxation, impacting the ultimate conclusion of all the examinations.

In certain states, we pay premium taxes in lieu of state income taxes. Premium taxes are reported with general and administrative expense.

At December 31, 2010, we had unused federal tax net operating loss carryforwards of approximately $101.0 to offset future taxable income. The loss carryforwards expire in the years 2015 through 2024. During 2010, 2009 and 2008 federal income taxes paid totaled $2,531.9, $1,194.2 and $1,700.2, respectively.

9. Property and Equipment

A summary of property and equipment at December 31 is as follows:

	2010	2009
Land and improvements	$ 51.9	$ 51.9
Building and components	388.2	384.4
Data processing equipment, furniture and other equipment	671.8	706.9
Computer software, purchased and internally developed	1,145.6	1,055.3
Leasehold improvements	165.5	161.6
	2,423.0	2,360.1
Accumulated depreciation and amortization	(1,267.5)	(1,260.5)
Property and equipment, net	$ 1,155.5	$ 1,099.6

Property and equipment includes assets purchased under noncancelable capital leases of $64.7 and $50.1 at December 31, 2010 and 2009, respectively. Total accumulated amortization on leased assets at December 31, 2010 and 2009 was $62.0 and $44.0, respectively. Depreciation expense for 2010, 2009 and 2008 was $103.1, $107.1 and $105.4, respectively. Amortization expense on leased assets, computer software and leasehold improvements for 2010, 2009 and 2008 was $194.3, $184.3 and $172.0, respectively, which includes amortization expense on computer software, both purchased and internally developed, for 2010, 2009 and 2008 of $171.9, $158.8 and $146.1, respectively. Capitalized

costs related to the internal development of software of $898.5 and $820.2 at December 31, 2010 and 2009, respectively, are reported with computer software.

In addition to impairments for information technology assets related to our change in strategic focus primarily in response to health care reform as described in Note 4, Restructuring Activities, we experienced $54.8 of impairment for information technology assets due to our decision to discontinue further use of these assets in the normal course of business.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

10. Goodwill and Other Intangible Assets

A summary of the change in the carrying amount of goodwill by reportable segment (see Note 20, Segment Information) for 2010 and 2009 is as follows:

	Commercial	Consumer	Other	Total
Balance as of January 1, 2009	$ 9,974.7	$ 3,321.5	$ 165.1	$ 13,461.3
UniCare goodwill impairment	(41.0)			(41.0)
Sale of PBM business			(165.1)	(165.1)
Goodwill acquired	14.4			14.4
Purchase price allocation adjustments	(4.0)	(1.0)		(5.0)
Balance as of December 31, 2009	9,944.1	3,320.5		13,264.6
Purchase price allocation adjustments	0.7	(0.4)		0.3
Balance as of December 31, 2010	$ 9,944.8	$ 3,320.1	$	$ 13,264.9
Accumulated impairment as of December 31, 2010	$ (41.0)	$	$	$ (41.0)

Goodwill adjustments incurred during 2010 included a reduction of $1.5 related to the tax benefit on the exercise of stock options issued as part of various acquisitions and an increase of $1.8 related to other purchase accounting adjustments. Goodwill adjustments in 2009 included a reduction of $3.6 related to the tax benefit on the exercise of stock options issued as part of various acquisitions and a decrease of $1.4 related to other purchase accounting adjustments.

As required by FASB guidance, we completed our annual impairment tests of existing goodwill and other intangible assets with indefinite lives during the fourth quarters of 2010, 2009 and 2008. The guidance also requires interim impairment testing to be performed when potential impairment indicators exist. These tests involve the use of estimates related to the fair value of goodwill and intangible assets with indefinite lives and require a significant degree of management judgment and the use of subjective assumptions. The fair values were estimated using the income and market value valuation methods, incorporating Level III internal estimates for inputs, including, but not limited to, revenue projections, income projections, cash flows and discount rates. The annual impairment tests are performed in the fourth quarter and, thus, are performed after the recognition of the impairment discussed in the following paragraph.

As a result of a strategic action, on October 28, 2009, we announced that we entered into a member transition agreement with Health Care Service Corporation, or HCSC, which operates as Blue Cross and Blue Shield in Illinois and Texas. Under this agreement, HCSC offered guaranteed replacement coverage to our UniCare commercial group and individual members in those states. In the fourth quarter of 2009, commensurate with the expected transition of our Illinois and Texas UniCare commercial group and individual members to HCSC, we identified and recorded a pre-tax goodwill impairment charge of $41.0.

The goodwill in our Other segment related entirely to our PBM business that was sold to Express Scripts on December 1, 2009.

Goodwill acquired in 2009 included $14.4 related to the DeCare acquisition.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

10. Goodwill and Other Intangible Assets (continued)

The components of other intangible assets as of December 31 are as follows:

	2010			2009		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Intangible assets with finite lives:						
Subscriber base	$ 3,121.6	$ (1,618.7)	$ 1,502.9	$ 3,128.6	$ (1,394.8)	$ 1,733.8
Provider and hospital networks	106.1	(31.1)	75.0	137.2	(35.1)	102.1
Other	46.8	(15.0)	31.8	54.0	(17.4)	36.6
Total	3,274.5	(1,664.8)	1,609.7	3,319.8	(1,447.3)	1,872.5
Intangible assets with indefinite life:						
Blue Cross and Blue Shield and other trademarks	5,998.7		5,998.7	5,998.7		5,998.7
Provider relationships	271.8		271.8	271.5		271.5
Licenses	116.6		116.6	116.6		116.6
Total	6,387.1		6,387.1	6,386.8		6,386.8
Other intangible assets	$ 9,661.6	$ (1,664.8)	$ 7,996.8	$ 9,706.6	$ (1,447.3)	$ 8,259.3

In the first quarter of 2010, we recognized an impairment charge of $21.1 for certain intangible assets associated with the UniCare provider networks, due to a decision we made to transfer certain membership to an alternative network.

Our PBM business, together with other business units, partially supported our UniCare tradenames that are recognized as indefinite lived intangible assets. These tradenames were not sold with the PBM business in 2009. Accordingly, after the sale of the PBM business, a portion of these tradenames was impaired as the cash flows from the remaining business units were not sufficient to fully support the carrying value of these intangible assets. In addition, the UniCare tradenames are also partially supported by revenues generated from our UniCare subsidiaries, which among other products and services, sell health insurance products to commercial customers, as well as Medicare products to our Senior membership across the United States. During 2009, we expected future revenues from these business units to decline, primarily due to a decline in our low margin auto-assigned membership associated with Medicare Part D as well as the transition of our Illinois and Texas UniCare commercial group and individual members to HCSC beginning on January 1, 2010. Accordingly, during 2009, the PBM business sale, the expected decline in future Medicare Part D auto-assigned membership and the member transition agreement with HCSC, triggered an impairment review of our UniCare tradenames, which are included in the Commercial and Consumer segments. As a result, we identified and recorded a pre-tax impairment charge relating to our UniCare tradenames of $219.6, the majority of which was driven by the loss of the 2010 Medicare Part D auto-assigned membership. The valuation considered the expected future cash flows of all business units that support the affected tradenames.

As of December 31, 2010, estimated amortization expense for each of the five years ending December 31, is as follows: 2011, $225.4; 2012, $205.9; 2013, $183.5; 2014, $165.6; 2015, $148.2.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits

We sponsor various non-contributory employee defined benefit plans through certain subsidiaries.

The WellPoint Cash Balance Pension Plan, or the WellPoint Plan, is a cash balance pension plan covering certain eligible employees of the affiliated companies that participate in the WellPoint Plan. Effective January 1, 2006, benefits were curtailed, with the result that most participants stopped accruing benefits but continue to earn interest on benefits accrued prior to the curtailment. Certain participants subject to collective bargaining and certain other participants who met grandfathering rules continue to accrue benefits. Several pension plans acquired through various corporate mergers and acquisitions have been merged into the WellPoint Plan. Effective January 1, 2011, we split the WellPoint Plan, with no change in benefits for any participant. Current employees who are still receiving credits and/or benefit accruals were placed into a new plan, the WellPoint Cash Balance Pension Plan B. All other participants remain in the WellPoint Plan.

The UGS Pension Plan is a defined benefit pension plan with a cash balance component. The UGS Pension Plan covers eligible employees of the affiliated companies that participate in the UGS Pension Plan. Effective January 1, 2004, benefits were curtailed, with the result that most participants stopped accruing benefits but continue to earn interest on benefits previously accrued. Certain employees subject to collective bargaining and certain other employees who met grandfathering rules continue to accrue benefits.

The Employees Retirement Plan of Blue Cross of California, or the BCC Plan, is a defined benefit pension plan that covers eligible employees of Blue Cross of California who are covered by a collective bargaining agreement. Effective January 1, 2007, benefits were curtailed under the BCC Plan with the result that no Blue Cross of California employees hired after December 31, 2006 are eligible to participate in the BCC Plan.

All of the plans assets consist primarily of common stocks, fixed maturity securities, investment funds and short-term investments. The funding policies for all plans are to contribute amounts at least sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, or ERISA, including amendment by the Pension Protection Act of 2006, and in accordance with income tax regulations, plus such additional amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan participants.

We use a December 31 measurement date for determining benefit obligations and fair value of plan assets.

The following tables disclose consolidated pension benefits, which include the defined benefit pension plans described above, and consolidated other benefits, which include postretirement health and welfare benefits including medical, vision and dental benefits offered to certain employees. Calculations were computed using assumptions at the December 31 measurement dates.

The reconciliation of the benefit obligation is as follows:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Benefit obligation at beginning of year	$ 1,751.5	$ 1,688.8	$ 619.8	$ 575.3
Service cost	17.3	22.2	7.4	7.2
Interest cost	88.7	91.4	34.7	31.9
Actuarial loss	7.0	67.8	30.1	31.6
Benefits paid	(149.1)	(140.5)	(33.1)	(28.0)
Business combinations		21.8		1.8
Benefit obligation at end of year	$ 1,715.4	$ 1,751.5	$ 658.9	$ 619.8

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

The changes in the fair value of plan assets are as follows:

	Pension Benefits		Other Benefits	
	2010	**2009**	**2010**	**2009**
Fair value of plan assets at beginning of year	$ 1,703.5	$ 1,456.0	$ 132.4	$ 35.2
Actual return on plan assets	184.4	268.1	3.7	12.4
Employer contributions	3.9	103.6	172.2	114.5
Benefits paid	(149.1)	(140.5)	(37.6)	(29.7)
Business combinations		16.3		
Fair value of plan assets at end of year	$ 1,742.7	$ 1,703.5	$ 270.7	$ 132.4

The net amount included in the consolidated balance sheets is as follows:

	Pension Benefits		Other Benefits	
	2010	**2009**	**2010**	**2009**
Noncurrent assets	$ 97.0	$ 20.8	$	$
Current liabilities	(4.2)	(4.9)		
Noncurrent liabilities	(65.5)	(63.9)	(388.2)	(487.4)
Net amount at December 31	$ 27.3	$ (48.0)	$ (388.2)	$ (487.4)

The net amounts included in accumulated other comprehensive loss (income) that have not been recognized as components of net periodic benefit costs are as follows:

	Pension Benefits		Other Benefits	
	2010	**2009**	**2010**	**2009**
Net actuarial loss	$ 460.7	$ 555.1	$ 191.8	$ 162.9
Prior service credit	(5.5)	(6.3)	(81.4)	(91.0)
Net amount at December 31	$ 455.2	$ 548.8	$ 110.4	$ 71.9

The estimated net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit costs over the next year are $42.2 and $0.8, respectively. The estimated net actuarial loss and prior service credit for postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit costs over the next year are $10.5 and $9.4, respectively.

The accumulated benefit obligation for the defined benefit pension plans was $1,695.4 and $1,742.8 at December 31, 2010 and 2009, respectively.

As of December 31, 2010, certain pension plans had accumulated benefit obligations in excess of plan assets. For those same plans, the projected benefit obligation was also in excess of plan assets. Such plans had a combined projected benefit obligation, accumulated benefit obligation and fair value of plan assets of $93.1, $90.7 and $25.3, respectively.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

The assumptions used in calculating the benefit obligations for all plans are as follows:

	Pension Benefits		Other Benefits	
	2010	**2009**	**2010**	**2009**
Discount rate	5.15%	5.36%	5.24%	5.79%
Rate of compensation increase	3.75%	4.00%	3.75%	4.00%
Expected rate of return on plan assets	8.00%	8.00%	6.75%	7.00%

The components of net periodic benefit cost (credit) included in the consolidated statements of income are as follows:

	2010	**2009**	**2008**
Pension Benefits			
Service cost	$ 17.3	$ 22.2	$ 30.1
Interest cost	88.7	91.4	99.9
Expected return on assets	(139.6)	(142.8)	(154.8)
Recognized actuarial loss	25.5	2.2	0.1
Amortization of prior service credit	(0.8)	(0.8)	(0.9)
Settlement loss	31.1		
Curtailment gain			(1.4)
Net periodic benefit cost (credit)	$ 22.2	$ (27.8)	$ (27.0)
Other Benefits			
Service cost	$ 7.4	$ 7.2	$ 5.8
Interest cost	34.7	31.9	33.0
Expected return on assets	(10.3)	(2.5)	(3.5)
Recognized actuarial loss	7.8	7.0	5.2
Amortization of prior service credit	(9.5)	(9.8)	(9.8)
Net periodic benefit cost	$ 30.1	$ 33.8	$ 30.7

During 2010, we incurred total settlement losses of $31.1 as lump-sum payments exceeded the service cost and interest cost components of net periodic benefit cost for two of our plans.

The assumptions used in calculating the net periodic benefit cost for all plans are as follows:

	2010	2009	2008
Pension Benefits			
Discount rate	5.36%	5.64%	6.00%
Rate of compensation increase	4.00%	4.00%	4.50%
Expected rate of return on plan assets	8.00%	8.00%	8.00%
Other Benefits			
Discount rate	5.79%	5.73%	6.10%
Rate of compensation increase	4.00%	4.00%	4.50%
Expected rate of return on plan assets	7.00%	7.25%	7.25%

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

The assumed health care cost trend rate to be used for next year to measure the expected cost of other benefits is 8.00% with a gradual decline to 5.00% by the year 2017. These estimated trend rates are subject to change in the future. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, an increase in the assumed health care cost trend rate of one percentage point would increase the postretirement benefit obligation as of December 31, 2010 by $49.7 and would increase service and interest costs by $2.7. Conversely, a decrease in the assumed health care cost trend rate of one percentage point would decrease the postretirement benefit obligation by $42.7 as of December 31, 2010 and would decrease service and interest costs by $2.3.

An important factor in determining our pension expense is the assumption for expected long-term rate of return on plan assets. We use a total portfolio return analysis in the development of our assumption. Factors such as past market performance, the long-term relationship between fixed maturity and equity securities, interest rates, inflation and asset allocations are considered in the assumption. The assumption includes an estimate of the additional return expected from active management of the investment portfolio. Peer data and an average of historical returns are also reviewed for appropriateness of the selected assumption.

In managing the plan assets, our objective is to be a responsible fiduciary while minimizing financial risk. We attempt to mitigate risk to the pension plan assets through our investment policy, which places limits on the overall mix, quality of investments, and concentrations in individual investments. Treasury futures in the portfolio are sometimes used as a substitute for physical securities. In addition to providing sufficient funding and producing a reasonable return, the investment strategy seeks to minimize the volatility in employer expense and cash flow.

Plan assets include a diversified mix of investment grade fixed maturity securities, equity securities and alternative investments across a range of sectors and levels of capitalization to maximize the long-term return for a prudent level of risk. The target allocation for pension benefit plan assets is 44% equity securities, 45% fixed maturity securities, and 11% to all other types of investments. Equity securities primarily include a mix of domestic securities, foreign securities and mutual funds invested in equities. Fixed maturity securities primarily include treasury securities, corporate bonds, and asset- backed investments issued by corporations and the U.S. government. Other types of investments include partnership interests and investments in trusts designed specifically for employee benefit plans. As of December 31, 2010, there were no significant concentrations of investments in the pension benefit assets or other benefit assets. No plan assets were invested in WellPoint common stock as of the measurement date.

Pension benefit assets and other benefit assets recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

The fair values of our pension benefit assets and other benefit assets at December 31, 2010 by asset category and level inputs, as defined by FASB guidance regarding fair value measurements and disclosures (see Note 7, Fair Value, for additional information regarding the definition of level inputs), are as follows:

	Level I	Level II	Level III	Total
December 31, 2010:				
Pension Benefit Assets:				
Equity securities:				
U.S. securities	$ 160.8	$	$ 413.7	$ 574.5
Foreign securities	276.4			276.4
Fixed maturity securities:				
Government securities	142.0	24.0		166.0
Corporate bonds		183.0		183.0
Asset-backed securities		134.8		134.8
Other types of investments:				
Mutual funds	25.3			25.3
Common and collective trusts		45.3		45.3
Partnership interests			147.4	147.4
Contract with insurance company			188.8	188.8
Other plan assets	0.5		0.7	1.2
Total pension benefit assets	$ 605.0	$ 387.1	$ 750.6	$ 1,742.7
Other Benefit Assets:				
Equity securities:				
U.S. securities	$ 11.4	$	$ 16.1	$ 27.5
Foreign securities	10.8			10.8
Fixed maturity securities:				
Government securities	5.5	0.9		6.4
Corporate securities	190.1	7.1		197.2
Asset-backed securities		5.3		5.3
Other types of securities:				
Common and collective trusts		1.8		1.8
Partnership interests			5.7	5.7
Investment in DOL 103-12 trust		16.0		16.0
Total other benefit assets	$ 217.8	$ 31.1	$ 21.8	$ 270.7

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

The fair values of our pension benefit assets and other benefit assets at December 31, 2009 by asset category and level inputs, as defined by FASB guidance regarding fair value measurements and disclosures (see Note 7, Fair Value, for additional information regarding the definition of level inputs) are as follows (continued):

	Level I	Level II	Level III	Total
December 31, 2009:				
Pension Benefit Assets:				
Equity securities:				
U.S. securities	$ 140.1	$	$ 425.4	$ 565.5
Foreign securities	146.8			146.8
Fixed maturity securities:				
Government securities	61.2	18.3		79.5
Corporate bonds		166.5		166.5
Asset-backed securities		142.7	6.0	148.7
Other types of investments:				
Mutual funds	22.1			22.1
Common and collective trusts		89.5	115.7	205.2
Partnership interests			162.2	162.2
Contract with insurance company			204.3	204.3
Other plan assets			2.7	2.7
Total pension benefit assets	$ 370.2	$ 417.0	$ 916.3	$ 1,703.5
Other Benefit Assets:				
Cash and cash equivalents	$ 70.0	$	$	$ 70.0
Equity securities:				
U.S. securities	12.7		10.9	23.6
Foreign securities	3.8			3.8
Fixed maturity securities:				
Government securities	1.6	0.4		2.0
Corporate securities		4.3		4.3
Asset-backed securities		3.7	0.1	3.8
Other types of securities:				
Common and collective trusts		2.3	3.0	5.3
Partnership interests			4.2	4.2
Investment in DOL 103-12 trust		15.4		15.4
Total other benefit assets	$ 88.1	$ 26.1	$ 18.2	$ 132.4

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Benefits (continued)

A reconciliation of the beginning and ending balances of plan assets measured at fair value using Level III inputs for the years ended December 31, 2010 and 2009 is as follows:

	U.S. Equity Securities	Asset Backed Securities	Common / Collective Trusts	Partnership Interests	Insurance Company Contracts	Other Plan Assets	Total
Beginning balance at January 1, 2009	$ 313.9	$ 6.5	$ 96.0	$ 94.0	$ 241.3	$	$ 751.7
Actual return on plan assets:							
Relating to assets still held at the reporting date	122.4	0.7	22.7	23.4	(17.5)	(1.6)	150.1
Purchases, sales, issuances and settlements, net		(1.3)		49.0	(19.5)	4.3	32.5
Transfers into Level III		0.2					0.2
Ending balance at December 31, 2009	436.3	6.1	118.7	166.4	204.3	2.7	934.5
Actual return on plan assets:							
Relating to assets still held at the reporting date	65.5	0.5	0.6	(10.8)	10.2	1.6	67.6
Purchases, sales, issuances and settlements, net	(72.0)	(2.0)	(119.3)	(2.5)	(25.7)	(3.6)	(225.1)
Transfers out of Level III		(4.6)					(4.6)
Ending balance at December 31, 2010	$ 429.8	$	$	$ 153.1	$ 188.8	$ 0.7	$ 772.4

There were no material transfers between Levels I, II and III during the years ended December 31, 2010 and 2009.

Our current funding strategy is to fund an amount at least equal to the minimum required funding as determined under ERISA with consideration of maximum tax deductible amounts. We may elect to make discretionary contributions up to the maximum amount deductible for income tax purposes. For the years ended December 31, 2010 or 2009, no material contributions were necessary to meet ERISA required funding levels; however, we made tax deductible discretionary contributions totaling $138.9 and $188.6 to the benefit plans, respectively. Employer contributions to other benefit plans represent discretionary contributions and do not include payments to retirees for current benefits.

Our estimated future payments for pension benefits and postretirement benefits, which reflect expected future service, as appropriate, are as follows:

	Pension Benefits	Other Benefits

2011	$ 137.4	$ 42.6
2012	130.1	44.4
2013	128.5	45.9
2014	133.6	47.5
2015	132.5	48.9
2016 2020	684.8	254.0

In addition to the defined benefit plans, we maintain the WellPoint 401(k) Retirement Savings Plan, a qualified defined contribution plan covering substantially all employees. Voluntary employee contributions are matched by us subject to certain limitations. Contributions made by us totaled $111.0, $111.0 and $104.3 during 2010, 2009 and 2008, respectively.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

12. Medical Claims Payable

A reconciliation of the beginning and ending balances for medical claims payable is as follows:

	Years Ended December 31		
	2010	**2009**	**2008**
Gross medical claims payable, beginning of period	$ 5,450.5	$ 6,184.7	$ 5,788.0
Ceded medical claims payable, beginning of period	(29.9)	(60.3)	(60.7)
Net medical claims payable, beginning of period	5,420.6	6,124.4	5,727.3
Business combinations and purchase adjustments		2.8	
Net incurred medical claims:			
Current year	45,077.1	47,315.1	47,940.9
Prior years redundancies	(718.0)	(807.2)	(263.2)
Total net incurred medical claims	44,359.1	46,507.9	47,677.7
Net payments attributable to:			
Current year medical claims	40,387.8	42,056.9	42,020.7
Prior years medical claims	4,572.4	5,157.6	5,259.9
Total net payments	44,960.2	47,214.5	47,280.6
Net medical claims payable, end of period	4,819.5	5,420.6	6,124.4
Ceded medical claims payable, end of period	32.9	29.9	60.3
Gross medical claims payable, end of period	$ 4,852.4	$ 5,450.5	$ 6,184.7

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claims payments becomes known. This information is compared to the originally established year end liability. Negative amounts reported for incurred claims related to prior years result from claims being settled for amounts less than originally estimated.

The following table provides a summary of the two key assumptions having the most significant impact on our incurred but not paid liability estimates for the years ended December 31, 2010, 2009 and 2008, which are the completion and trend factors. These two key assumptions can be influenced by utilization levels, unit costs, mix of business, benefit plan designs, provider reimbursement levels, processing system conversions and changes, claim inventory levels, claim processing patterns, claim submission patterns and operational changes resulting from business combinations.

	Favorable (Unfavorable) Developments by Changes in Key Assumptions		
	2010	2009	2008
Assumed trend factors	$ 534.9	$ 466.1	$ 383.5
Assumed completion factors	183.1	341.1	(120.3)
Total	$ 718.0	$ 807.2	$ 263.2

The favorable development recognized in 2010 resulted primarily from trend factors in late 2009 developing more favorably than originally expected. In addition, a minor but steady improvement in payment cycle times impacted completion factor development and contributed to the favorability. The favorable development

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

12. Medical Claims Payable (continued)

recognized in 2009 was driven by significant contributions from both trend and completion factor development. Trend factors in late 2008 restated more favorably than originally expected. Further, a large reduction in payment cycle times also impacted completion factor development and contributed to the favorability. The favorable development in 2008 was less significant. Trend factors in late 2008 developed more favorably than expected. Offsetting a portion of this impact was unfavorability created by completion factor development, which was driven by claim processing patterns developing differently than expected.

Due to changes within our Company and industry during 2010, we re-evaluated our actuarial processes and resulting levels of reserves. As discussed in Note 2, Basis of Presentation and Significant Accounting Policies, Actuarial Standards of Practice require that claims liabilities be appropriate under moderately adverse circumstances. To satisfy these requirements, our reserving process has historically involved recognizing the inherent volatility in actual future claim payments compared to the current estimate for the related liability by recording a provision for adverse deviation. This additional reserve establishes a sufficient level of conservatism in the liability estimate that is similar from period to period. There are a number of factors that can require a higher or lower level of additional reserve, such as changes in technology that provide faster access to claims data or change the speed of adjudication and settlement of claims, or overall variability in claim payment patterns and claim inventory levels. Given that in the more recent periods we experienced higher levels of automatic claims adjudication and faster claims payment leading to lower and more consistent claims inventory levels, we determined that using a lower level of targeted reserve for adverse deviation provides a similar level of confidence that the established reserves are appropriate in the current environment. This change in estimate resulted in a benefit to 2010 income before income tax expense and diluted earnings per share of $67.7 and $0.11, respectively. We expect to use this lower level of targeted reserve for adverse deviation in future periods unless changing circumstances require us to revise the estimate.

13. Debt

Short-term Borrowings

We are a member of the Federal Home Loan Bank of Indianapolis and the Federal Home Loan Bank of Cincinnati, collectively, the FHLBs, and as a member we have the ability to obtain cash advances subject to certain requirements. In order to obtain cash advances, we are required to pledge securities as collateral to the FHLBs, initially equal to a certain percentage of the cash borrowings, depending on the type of securities pledged as collateral. The market value of the collateral is monitored daily by the FHLBs, and if it falls below the required percentage of the cash borrowings, we are required to pledge additional securities as collateral or repay a portion of the outstanding cash advance balance. In addition, our borrowings may be limited based on the amount of our investment in the FHLBs common stock. Our investment in the FHLBs common stock at December 31, 2010 totaled $11.4, which is reported in Investments available-for-sale Equity securities on the consolidated balance sheets. On December 21, 2010, we borrowed $100.0 from the FHLBs with a one-month term at a fixed interest rate of 0.120%, which was outstanding at December 31, 2010 and was repaid on January 18, 2011. On January 18, 2011, we borrowed another $100.0 for a two-month period at 0.200%, with a maturity date of March 21, 2011. In addition, on April 12, 2010, we borrowed $100.0 from the FHLBs with a two-year term at a fixed interest rate of 1.430%, which is reported with Long-term debt, less current portion on the consolidated balance sheets. Securities, primarily certain U.S. government sponsored mortgage-backed securities, with a fair value of $237.9 at December 31, 2010, have been pledged as collateral. The securities pledged are reported in Investments available-for-sale Fixed maturity securities on the consolidated balance sheets.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

13. Debt (continued)

Long-term Debt

The carrying value of long-term debt at December 31 consists of the following:

	2010	2009
Senior unsecured notes:		
5.000%, face amount of $700.0, due 2011	$ 701.8	$ 698.7
6.375%, face amount of $350.0, due 2012	354.4	358.5
6.800%, face amount of $800.0, due 2012	842.0	846.2
6.000%, face amount of $400.0, due 2014	397.6	396.8
5.000%, face amount of $500.0, due 2014	547.5	532.9
5.250%, face amount of $1,100.0, due 2016	1,093.4	1,092.1
5.875%, face amount of $700.0, due 2017	693.0	692.1
7.000%, face amount of $600.0, due 2019	595.2	594.7
4.350%, face amount of $700.0, due 2020	693.3	
5.950%, face amount of $500.0, due 2034	494.9	494.7
5.850%, face amount of $900.0, due 2036	889.7	889.3
6.375%, face amount of $800.0, due 2037	789.7	789.4
5.800%, face amount of $300.0, due 2040	293.5	
Surplus notes:		
9.125%, face amount of $42.0, due 2010		42.0
9.000%, face amount of $25.1, due 2027	24.9	24.8
Variable rate debt:		
Commercial paper program	336.2	500.6
Senior term loan		433.1
Fixed rate 1.430% FHLBs secured loan, due 2012	100.0	
Capital leases, stated or imputed rates from 4.860% to 26.030% due through 2012	6.6	13.2
Total long-term debt	8,853.7	8,399.1
Current portion of long-term debt	(705.9)	(60.8)
Long-term debt, less current portion	$ 8,147.8	$ 8,338.3

At maturity on January 15, 2011, we repaid the $700.0 outstanding balance of our 5.000% senior unsecured notes.

On September 30, 2010, we entered into a senior credit facility, or the facility, with certain lenders for general corporate purposes. The facility provides credit up to $2,000.0 and matures on September 30, 2013. The interest rate on the facility is based on either, (i) the LIBOR rate plus a predetermined percentage rate based on our credit rating at the date of utilization, or (ii) a base rate as defined in the facility agreement plus a predetermined percentage rate based on our credit rating at the date of utilization. Our ability to borrow under the facility is subject to compliance with certain covenants. Commitment and legal fees paid for the facility were $7.6 and there are no conditions that are probable of occurring under which the facility may be withdrawn. There were no amounts outstanding under the facility as of or during the three months ended December 31, 2010, or under a previous facility during the nine months ended September 30, 2010. At December 31, 2010, we had $2,000.0 available under the facility. This facility replaced our previous senior credit facility, which provided credit up to $2,392.0.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

13. Debt (continued)

On August 12, 2010, we issued $700.0 of 4.350% notes due 2020 and $300.0 of 5.800% notes due 2040 under our shelf registration statement. We used the proceeds from this debt issuance to repay the remaining outstanding balance of our variable rate senior term loan and for general corporate purposes. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows a note holder to require us to repurchase the notes upon the occurrence of both a change of control event and a downgrade of the notes.

Surplus notes are unsecured obligations of Anthem Insurance Companies, Inc., or Anthem Insurance, a wholly owned subsidiary, and are subordinate in right of payment to all of Anthem Insurance s existing and future indebtedness. Any payment of interest or principal on the surplus notes may be made only with the prior approval of the Indiana Department of Insurance, or IDOI, and only out of capital and surplus funds of Anthem Insurance that the IDOI determines to be available for the payment under Indiana insurance laws. During April 2010, we repaid the remaining $42.0 outstanding balance of our 9.125% surplus notes.

In July 2009, May 2009 and March 2009, we repurchased $390.0, $300.0 and $400.0, respectively, of our $1,090.0 face value due at maturity zero coupon notes. The notes were issued in August 2007 in a private placement transaction. We paid cash totaling $553.8 to repurchase the notes, which had a remaining carrying value of zero at December 31, 2009.

On February 5, 2009, we issued $400.0 of 6.000% notes due 2014 and $600.0 of 7.000% notes due 2019 under our shelf registration statement. The proceeds from this debt issuance were used for general corporate purposes, including, but not limited to, repayment of short-term debt and repurchasing shares of our common stock. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows a note holder to require us to repurchase the notes upon the occurrence of both a change of control event and a downgrade of the notes.

We have an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. The weighted-average interest rate on commercial paper borrowings at December 31, 2010 and 2009 was 0.359% and 0.340%, respectively. Commercial paper borrowings have been classified as long-term debt at December 31, 2010 and 2009 as our practice and intent is to replace short-term commercial paper outstanding at expiration with additional short-term commercial paper for an uninterrupted period extending for more than one year or our ability to redeem our commercial paper with borrowings under the senior credit facility described above.

Interest paid during 2010, 2009 and 2008 was $419.6, $409.2 and $443.4, respectively.

We were in compliance with all applicable covenants under our outstanding debt agreements.

Future maturities of debt, including capital leases, are as follows: 2011, $1,043.9; 2012, $1,297.1; 2013, $0.0; 2014, $945.1; 2015, $0.0 and thereafter, $5,567.6.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies

Litigation

In various California state courts, we are defending a number of individual lawsuits, including one filed by the Los Angeles City Attorney, and one purported class action alleging the wrongful rescission of individual insurance policies. The suits name 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 lawsuits generally allege breach of contract, bad faith and unfair business practices in a purported practice of rescinding new individual members following the submission of large claims. The parties agreed to mediate most of these lawsuits and the mediation resulted in the resolution of some of these lawsuits. Final approval of the class action settlement was granted on July 13, 2010, and no appeals were filed. Payments pursuant to the terms of the settlement are expected to occur in the first or second quarter of 2011 and will not have a material impact on our consolidated financial position or results of operations. 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 the year. A demurrer to the amended complaint has been filed.

We are currently defending several putative class actions filed as a result of the 2001 Anthem Insurance Companies, Inc., or AICI, demutualization. The suits name AICI as well as Anthem, Inc., or Anthem, n/k/a WellPoint, Inc. The suits are captioned as *Ronald Gold, et al. v. Anthem, Inc. et al.; Mary E. Ormond, et al. v. Anthem, Inc,. et al.; Ronald E. Mell, Sr., et al. v. Anthem, Inc., et al; and Jeffrey D. Jorling, et al., v. Anthem, Inc. (n/k/a WellPoint, Inc.) et al.* AICI s 2001 Plan of Conversion, or the Plan, provided for the conversion of AICI from a mutual insurance company into a stock insurance company pursuant to Indiana law. Under the Plan, AICI distributed the fair value of the company at the time of conversion to its Eligible Statutory Members, or ESMs, in the form of cash or Anthem common stock in exchange for their membership interests in the mutual company. The lawsuits generally allege that AICI distributed value to the wrong ESMs or distributed insufficient value to the ESMs. In *Gold*, cross motions for summary judgment were granted in part and denied in part with regard to the issue of sovereign immunity asserted by co-defendant, the State of Connecticut (the State). The State appealed this denial to the Connecticut Supreme Court. We filed a cross-appeal. Oral argument was held in November 2008. 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. Our cross-appeal was dismissed by the Court. The case was remanded to the trial court for further proceedings. In the *Ormond* suit, our Motion to Dismiss was granted in part and denied in part on March 31, 2008. The Court dismissed the claims for violation of federal and state securities laws, for violation of the Indiana Demutualization Law and for unjust enrichment. On September 29, 2009, a class was certified. The class consists of all ESMs residing in Ohio, Indiana, Kentucky or Connecticut who received cash compensation in connection with the demutualization. The class does not include employers located in Ohio and Connecticut that received compensation under the Plan. On December 23, 2010, a motion for class certification was denied in the *Jorling* suit. On November 4, 2009 a class was certified in the *Mell* suit. That class consists of persons who were employees or retirees who were continuously enrolled in the health benefit plan sponsored by the City of Cincinnati between the dates of June 18, 2001 and November 2, 2001. On March 3, 2010, the Court issued an order granting our motion for summary judgment. As a result, the Mell suit has been dismissed. The plaintiffs have filed an appeal with the Sixth Circuit Court of Appeals, which is pending. We intend to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

We are currently a defendant in a putative class action relating to out-of-network, or OON, reimbursement of dental claims called *American Dental Association v. WellPoint Health Networks, Inc. and Blue Cross of California*. The lawsuit was filed in March 2002 by the American Dental Association, and three dentists who are

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

suing on behalf of themselves and are seeking to sue on behalf of a nationwide class of all non-participating dental providers who were paid less than their actual charges for dental services provided to WellPoint dental members. The complaint alleges that WellPoint Health Networks Inc., BCC and other WellPoint affiliates and subsidiaries (collectively, WellPoint) improperly set usual, customary and reasonable payment for OON dental services based on HIAA/Ingenix data. The plaintiffs claim, among other things, that the HIAA/Ingenix databases fail to account for differences in geography, provider specialty, outlier (high) charges, and complexity of procedure. The complaint further alleges that WellPoint was aware that this data was inappropriate to set usual, customary and reasonable rates. The dentists sue as assignees of their patients rights to benefits under WellPoint s dental plans and assert that WellPoint breached its contractual obligations in violation of ERISA by routinely paying OON dentists less than their actual charges and representing that its OON payments were properly determined usual, customary and reasonable rates. The suit is currently pending in the United States District Court for the Southern District of Florida. We have refiled a motion for summary judgment, which is pending. We intend to vigorously defend this lawsuit; however, its ultimate outcome cannot be presently determined.

We are currently a defendant in eleven putative class actions relating to OON reimbursement. The cases have been made part of a WellPoint-only multi-district litigation called *In re WellPoint, Inc. Out-of-Network UCR Rates Litigation* and are pending in the United States District Court for the Central District of California. The first lawsuit (*Darryl and Valerie Samsell v. WellPoint, Inc., WellPoint HealthNetworks, Inc. and Anthem, Inc.*) was filed in February 2009 by two former members on behalf of a putative class of members who received OON services for which the defendants paid less than billed charges. The plaintiffs in that case allege that the defendants violated RICO, the Sherman Antitrust Act, ERISA, and federal regulations by relying on databases provided by Ingenix in determining OON reimbursement. The second lawsuit (*AMA et al. v. WellPoint, Inc.)* was brought in March 2009 by the American Medical Association, or AMA, four state medical associations and two individual physicians on behalf of a putative class of OON physicians. The third lawsuit (*Roberts v. UnitedHealth Group, Inc. et al.)* was brought in March 2009 by a WellPoint member as a putative class action on behalf of all persons or entities who have paid premiums for OON health insurance coverage. The fourth lawsuit (*JBW v. UnitedHealth Group, Inc. et al.*) was brought in April 2009 by a WellPoint member as a putative class action on behalf of all persons who have paid premiums for OON health insurance coverage. The fifth lawsuit (*O Brien, et al. v. WellPoint, Inc., et al.*) was brought in May 2009 by three WellPoint members as a putative class action on behalf of all persons who received OON services. The sixth lawsuit (*Higashi, D.C. d/b/a Mar Vista Institute of Health v. Blue Cross of California d/b/a WellPoint, Inc*.) was brought in June 2009 by an OON chiropractor as a putative class action on behalf of all OON chiropractors. The seventh suit (*North Peninsula Surgical Center v. WellPoint, Inc., et al*.) was brought in June 2009 by an OON surgical center as a putative class action on behalf of all OON surgical centers. The eighth lawsuit (*American Podiatric Medical Association, et al. v. WellPoint, Inc*.) was brought in June 2009 by the American Podiatric Medical Association, California Chiropractic Association, California Psychological Association and an OON clinical psychologist as a putative class action on behalf of OON podiatrists, chiropractors and psychologists. The ninth lawsuit *(Michael Pariser, et al. v. WellPoint, Inc.)* was brought in July 2009 by an OON psychologist as a putative class action on behalf of all OON providers who are not medical doctors or doctors of osteopathy. The tenth lawsuit (*Harold S. Bernard, Ph.D., et al. v. WellPoint, Inc.*) was brought in July 2009 by an OON psychologist as a putative class action on behalf of all non-medical doctor health care providers. The eleventh lawsuit (*Ken Unmacht, Psy.D., et al. v. WellPoint, Inc.*) was brought in August 2009 by an OON licensed psychotherapist as a putative class action on behalf of all non-medical doctor health care providers. A consolidated complaint was filed for the eleven cases, and then was amended to broaden the allegations in the lawsuit to OON reimbursement methodologies beyond the use of Ingenix. We filed a revised motion to dismiss the amended consolidated complaint, which is pending.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

At the end of 2009, we filed a motion to enjoin the claims brought by the medical doctors and doctors of osteopathy based on prior litigation releases. The magistrate judge recommended that our motion to enjoin be granted. The plaintiffs filed objections to the recommendation and we responded. The objections are pending. Plaintiffs then filed a petition for declaratory judgment asking the Court to find that those claims are not barred by the prior litigation releases. We have filed a motion to dismiss the petition for declaratory judgment, which is pending. We intend to vigorously defend these suits; however, their ultimate outcomes cannot be presently determined.

Other Contingencies

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

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

The National Organization of Life & Health Insurance Guaranty Associations, or NOLHGA, is a voluntary association consisting of the state life and health insurance guaranty organizations located throughout the U.S. State life and health insurance guaranty organizations, 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 Insurance Commissioner has petitioned the state court for liquidation, however, we do not know when a decision will be made, although we believe it is likely the state court will rule within the next twelve months. In the event that 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

operating results.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

Contractual Obligations and Commitments

On December 1, 2009, we entered into a ten-year agreement with Express Scripts to provide pharmacy benefit management services for our plans. Under this agreement, Express Scripts will be the exclusive provider of certain specified pharmacy benefit management services, such as pharmacy network management, home delivery, pharmacy customer service, claims processing, rebate management, drug utilization and specialty pharmaceutical management services. Accordingly, the agreement contains certain financial and operational requirements obligating both Express Scripts and us. Express Scripts primary obligations relate to the performance of such services and meeting certain pricing guarantees and performance standards. Our primary obligations relate to oversight, provision of data, payment for services, transition services and certain minimum volume requirements. The failure by either party to meet the respective requirements could potentially serve as a basis for early termination of the contract. In addition, our failure to meet certain minimum script volume requirements may result in financial penalties that could have a material impact on our results of operations.

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 commitment under this agreement at December 31, 2010 was $330.0 over a five year period. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

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 December 31, 2010 was $1,022.7 over a four year period. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

Vulnerability from Concentrations

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investment securities, premium receivables and instruments held through hedging activities. All investment securities are managed by professional investment managers within policies authorized by our Board of Directors. Such policies limit the amounts that may be invested in any one issuer and prescribe certain investee company criteria. Concentrations of credit risk with respect to premium receivables are limited due to the large number of employer groups that constitute our customer base in the geographic regions in which we conduct business. As of December 31, 2010, there were no significant concentrations of financial instruments in a single investee, industry or geographic location.

15. Capital Stock

***Stock Incentive Plan*s**

On March 15, 2006, our Board of Directors adopted the WellPoint 2006 Incentive Compensation Plan, or the Plan, which was approved by our shareholders on May 16, 2006. On March 4, 2009, our Board of Directors approved an amendment and restatement of the Plan to increase the number of shares available by 33.0 shares, to rename the plan as the WellPoint Incentive Compensation Plan, or Incentive Plan, and to extend the term of the plan such that no awards may be granted on or after May 20, 2019, which was approved by our shareholders on May 20, 2009.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

15. Capital Stock (continued)

The Incentive Plan gives authority to the Compensation Committee of the Board of Directors to make incentive awards to our non-employee directors, employees and consultants, consisting of stock options, stock, restricted stock, restricted stock units, cash-based awards, stock appreciation rights, performance shares and performance units. The Incentive Plan, as amended and restated, increases the number of available shares for issuance to 60.1 shares, subject to adjustment as set forth in the Incentive Plan.

Stock options are granted for a fixed number of shares with an exercise price at least equal to the fair value of the shares at the grant date. Stock options granted in 2010, 2009 and 2008 vest over three years in equal semi-annual installments and generally have a term of seven years from the grant date.

Certain option grants contain provisions whereby the employee continues to vest in the award subsequent to termination due to retirement. Our attribution method for newly granted awards considers all vesting and other provisions, including retirement eligibility, in determining the requisite service period over which the fair value of the awards will be recognized.

Restricted stock awards are issued at the fair value of the stock on the grant date and may also include one or more performance measures that must be met for the restricted stock award to vest. The restrictions lapse in three equal annual installments.

During 2010, we modified a portion of the restricted stock units granted in 2010 to change the vesting date from the respective date in 2013 to December 10, 2012. This modification ensures maximum tax deductibility of the compensation costs associated with these restricted stock units, which deduction will not be fully available to us beginning in 2013 due to changes in tax law resulting from health care reform legislation. There were approximately 0.4 restricted stock units modified, which impacted 2,690 associates. These modifications did not result in any incremental share-based compensation costs.

For the years ended December 31, 2010, 2009 and 2008, we recognized share-based compensation cost of $136.0, $153.6 and $156.0, respectively, as well as related tax benefits of $45.9, $52.8 and $53.6, respectively.

A summary of stock option activity for the year ended December 31, 2010 is as follows:

	Number of Shares	Weighted- Average Option Price	Weighted- Average Remaining	Aggregate Intrinsic

		per Share	Contractual Life (Years)	Value
Outstanding at January 1, 2010	26.5	$ 56.98		
Granted	2.9	61.76		
Exercised	(2.7)	35.04		
Forfeited or expired	(1.8)	61.64		
Outstanding at December 31, 2010	24.9	59.60	4.3	$ 186.5
Exercisable at December 31, 2010	19.0	63.42	4.0	$ 108.9

The intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 amounted to $66.9, $40.4 and $54.4, respectively. We recognized tax benefits of $25.2, $18.8 and $22.0 in 2010, 2009 and 2008, respectively, from option exercises and disqualifying dispositions. The total fair value of shares vested during the years ended December 31, 2010, 2009 and 2008 was $93.5, $21.5 and $44.8, respectively. During the years ended December 31, 2010, 2009 and 2008 we received cash of $95.3, $79.8 and $70.5, respectively, from exercises of stock options.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

15. Capital Stock (continued)

A summary of the status of nonvested restricted stock activity, including restricted stock units, for the year ended December 31, 2010 is as follows:

	Restricted Stock Shares and Units	Weighted- Average Grant Date Fair Value per Share
Nonvested at January 1, 2010	4.2	$ 36.02
Granted	1.9	61.39
Vested	(1.5)	40.50
Forfeited	(0.4)	42.40
Nonvested at December 31, 2010	4.2	44.71

During the year ended December 31, 2010, we granted approximately 0.3 restricted stock units under the Incentive Plan that were contingent upon us achieving specified operating gain targets for 2010. We exceeded the specified operating targets and, accordingly, 0.4 restricted stock units were issued under this performance plan.

As of December 31, 2010, the total remaining unrecognized compensation cost related to nonvested stock options and restricted stock amounted to $29.0 and $65.1, respectively, which will be amortized over the weighted-average remaining requisite service periods of 9 and 10 months, respectively.

As of December 31, 2010, there were 34.4 shares of common stock available for future grants under the Incentive Plan.

Fair Value

We use a binomial lattice valuation model to estimate the fair value of all stock options granted. Expected volatility assumptions used in the binomial lattice model are based on an analysis of implied volatilities of publicly traded options on our stock and historical volatility of our stock price. The risk-free interest rate is derived from the U.S. Treasury strip rates at the time of the grant. The expected term of the options was derived from the outputs of the binomial lattice model, which incorporates post-vesting forfeiture assumptions based on an analysis of historical data. The dividend yield was based on our estimate of future dividend yields. Similar groups of employees that have dissimilar exercise behavior

are considered separately for valuation purposes. We utilize the multiple-grant approach for recognizing compensation expense associated with each separately vesting portion of the share-based award.

The following weighted-average assumptions were used to estimate the fair values of options granted during the years ended December 31:

	2010	2009	2008
Risk-free interest rate	3.09%	1.79%	3.36%
Volatility factor	34.00%	37.00%	26.00%
Dividend yield			
Weighted-average expected life	4.0 years	4.0 years	4.0 years

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

15. Capital Stock (continued)

The following weighted-average fair values were determined for the years ending December 31:

	2010	2009	2008
Options granted during the year	$ 18.76	$ 9.44	$ 18.63
Restricted stock and stock awards granted during the year	61.38	30.52	66.57
Employee stock purchases during the year	8.64	7.08	6.76

The binomial lattice option-pricing model requires the input of highly subjective assumptions including the expected stock price volatility. Because our stock option grants have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate in our opinion, existing models do not necessarily provide a reliable single measure of the fair value of our stock option grants.

Employee Stock Purchase Plan

We have registered 14.0 shares of common stock for the Employee Stock Purchase Plan, or the Stock Purchase Plan, which is intended to provide a means to encourage and assist employees in acquiring a stock ownership interest in WellPoint. Pursuant to terms of the Stock Purchase Plan, no employee is permitted to purchase more than $25,000 (actual dollars) worth of stock in any calendar year, based on the fair value of the stock at the end of each plan quarter. Employees become participants by electing payroll deductions from 1% to 15% of gross compensation. Payroll deductions are accumulated during each quarter and applied toward the purchase of stock on the last trading day of each quarter. Once purchased, the stock is accumulated in the employee s investment account. Through December 31, 2010, the Stock Purchase Plan allowed for a purchase price per share of 85% of the fair value of a share of common stock on the last trading day of the plan quarter. During 2010, 2009, and 2008, 1.0, 1.2 and 1.3 shares of common stock, respectively, were purchased under the Stock Purchase Plan, resulting in $8.5, $8.2 and $9.0 of related compensation cost, respectively. As of December 31, 2010, 6.1 shares were available for issuance under the Stock Purchase Plan. The Stock Purchase Plan was suspended effective January 1, 2011.

Use of Capital 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 depends upon our financial condition, results of operations, future liquidity needs, regulatory and capital requirements and other factors deemed relevant by our Board of Directors. Historically our common stock repurchase program, discussed below, has been our primary use of capital, and we have not previously paid any cash dividends on our common stock through December 31, 2010.

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. During the year ended December 31, 2010, we repurchased and retired approximately 76.7 shares at an average per share price of $56.86, for an aggregate cost of $4,360.3. During the year ended December 31, 2009, we repurchased and retired approximately 57.3 shares at an average per share price of $46.02, for an aggregate cost of $2,638.4. During the year ended December 31, 2008, we repurchased and retired approximately 56.4 shares at an average per share

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

15. Capital Stock (continued)

price of $58.07, for an aggregate cost of $3,276.2. The excess of cost of the repurchased shares over par value is charged on a pro rata basis to additional paid-in capital and retained earnings. On January 26, October 29 and December 9, 2010, our Board of Directors increased the share repurchase authorization by $3,500.0, $500.0 and $125.0, respectively. As of December 31, 2010, $148.5 remained authorized for future repurchases. On February 3, 2011, our Board of Directors increased the share repurchase authorization by $375.0. Subsequent to December 31, 2010, we repurchased and retired approximately 2.6 shares for an aggregate cost of approximately $162.7, leaving approximately $360.8 for authorized future repurchases at February 9, 2011. 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.

16. Accumulated Other Comprehensive Income (Loss)

A reconciliation of the components of accumulated other comprehensive income at December 31 is as follows:

	2010	2009
Investments:		
Gross unrealized gains	$ 1,048.0	$ 896.5
Gross unrealized losses	(134.5)	(153.7)
Net pretax unrealized gains	913.5	742.8
Deferred tax liability	(320.5)	(274.9)
Net unrealized gains on investments	593.0	467.9
Non-credit component of OTTI on investments:		
Unrealized losses	(9.1)	(32.8)
Deferred tax asset	3.1	12.1
Net unrealized non-credit component of OTTI on investments	(6.0)	(20.7)
Cash flow hedges:		
Gross unrealized losses	(39.1)	(16.5)
Deferred tax asset	13.8	5.7
Net unrealized losses on cash flow hedges	(25.3)	(10.8)
Defined benefit pension plans:		
Deferred net actuarial loss	(460.7)	(555.1)
Deferred prior service credits	5.5	6.3
Deferred tax asset	184.3	222.1

Net unrecognized periodic benefit costs for defined benefit pension plans	(270.9)	(326.7)
Postretirement benefit plans:		
Deferred net actuarial loss	(191.8)	(162.9)
Deferred prior service credits	81.4	91.0
Deferred tax asset	44.7	29.1
Net unrecognized periodic benefit costs for postretirement benefit plans	(65.7)	(42.8)
Foreign currency translation adjustments:		
Gross unrealized (losses) gains	(0.9)	1.6
Deferred tax asset (liability)	0.4	(0.4)
Net unrealized (losses) gains on foreign currency translation adjustment	(0.5)	1.2
Accumulated other comprehensive income	$ 224.6	$ 68.1

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

16. Accumulated Other Comprehensive Income (Loss) (continued)

Other comprehensive income (loss) reclassification adjustments for the years ended December 31 are as follows:

	2010	2009	2008
Investments:			
Net holding gain on investment securities arising during the period, net of tax (benefit) expense of $(8.9), $690.8 and $40.8, respectively	$ 24.9	$ 1,310.4	$ 97.2
Reclassification adjustment for net realized gain (loss) on investment securities, net of tax expense (benefit) of $54.5, $(138.6) and $(419.6), respectively	100.2	(255.2)	(759.6)
Total reclassification adjustment on investments	125.1	1,055.2	(662.4)
Non-credit component of OTTI on investments:			
Cumulative effect of adoption of FASB OTTI guidance, net of tax benefit of $0, $54.2 and $0, respectively		(88.9)	
Non-credit component of OTTI on investments, net of tax expense (benefit) of $9.0, $(12.1) and $0, respectively	14.7	(20.7)	
Cash flow hedges:			
Holding loss, net of tax benefit of $8.1, $1.0 and $0.2, respectively	(14.5)	(2.3)	(0.5)
Other:			
Net change in unrecognized periodic benefit costs for defined benefit pension and postretirement benefit plans, net of tax expense (benefit) of $22.3, $15.0 and $(266.1), respectively	32.9	19.3	(388.9)
Foreign currency translation adjustment, net of tax (benefit) expense of $(0.8), $0.4 and $0, respectively	(1.7)	1.2	
Net gain (loss) recognized in other comprehensive income, net of tax expense (benefit) of $68.0, $500.3 and $(645.1), respectively	$ 156.5	$ 963.8	$ (1,051.8)

17. Reinsurance

We reinsure certain risks with other companies and assume risk from other companies. We remain primarily liable to policyholders under ceded insurance contracts and are contingently liable for amounts recoverable from reinsurers in the event that such reinsurers do not meet their contractual obligations.

We evaluate the financial condition of our reinsurers and monitor concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize our exposure to significant losses from reinsurer insolvencies.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

17. Reinsurance (continued)

A summary of direct, assumed and ceded premiums written and earned for the years ended December 31, is as follows:

	2010		2009		2008	
	Written	**Earned**	**Written**	**Earned**	**Written**	**Earned**
Direct	$ 54,114.3	$ 53,982.8	$ 56,518.4	$ 56,416.6	$ 57,235.1	$ 57,177.8
Assumed	86.7	82.7	84.9	76.3	51.7	50.7
Ceded	(91.3)	(91.9)	(110.0)	(110.9)	(128.4)	(127.5)
Net premiums	$ 54,109.7	$ 53,973.6	$ 56,493.3	$ 56,382.0	$ 57,158.4	$ 57,101.0
Percentage of amount assumed to net premiums	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%

A summary of net premiums written and earned by segment (see Note 20, Segment Information) for the years ended December 31 is as follows:

	2010		2009		2008	
	Written	**Earned**	**Written**	**Earned**	**Written**	**Earned**
Reportable segments:						
Commercial	$ 31,385.8	$ 31,292.0	$ 34,147.6	$ 34,123.6	$ 34,957.6	$ 34,917.8
Consumer	16,100.5	16,059.6	16,213.8	16,126.8	16,325.0	16,372.8
Other	6,623.4	6,622.0	6,131.9	6,131.6	5,875.8	5,810.4
Net premiums	$ 54,109.7	$ 53,973.6	$ 56,493.3	$ 56,382.0	$ 57,158.4	$ 57,101.0

The effect of reinsurance on benefit expense for the years ended December 31 is as follows:

	2010	2009	2008
Direct	$ 44,949.3	$ 47,200.8	$ 48,381.9
Assumed	71.0	40.0	33.6
Ceded	(93.4)	(121.0)	(149.8)
Benefit expense	$ 44,926.9	$ 47,119.8	$ 48,265.7

The effect of reinsurance on certain assets and liabilities at December 31 is as follows:

	2010	2009
Policy liabilities, assumed	$ 64.1	$ 41.1
Unearned income, assumed	0.6	0.5
Premiums payable, ceded	23.6	23.3
Premiums receivable, assumed	7.2	6.8

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

18. Leases

We lease office space and certain computer and related equipment using noncancelable operating leases. At December 31, 2010, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following:

2011	$ 119.4
2012	98.6
2013	91.3
2014	87.4
2015	72.4
Thereafter	214.5
Total minimum payments required	$ 683.6

We have certain lease agreements that contain contingent payment provisions. Under these provisions, we pay contingent amounts in addition to base rent, primarily based upon annual changes in the consumer price index. The schedule above contains estimated amounts for potential future increases in lease payments based on the contingent payment provisions.

Lease expense for 2010, 2009 and 2008 was $187.3, $220.7 and $199.2, respectively.

19. Earnings per Share

The denominator for basic and diluted earnings per share at December 31 is as follows:

	2010	**2009**	**2008**
Denominator for basic earnings per share weighted-average shares	410.9	476.3	519.8
Effect of dilutive securities employee and director stock options and non vested restricted stock awards	4.9	4.2	3.2
Denominator for diluted earnings per share	415.8	480.5	523.0

During the years ended December 31, 2010, 2009 and 2008, weighted average shares related to certain stock options of 17.4, 17.9 and 17.5, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

20. Segment Information

Our organizational structure is comprised of three reportable segments: Commercial, Consumer and Other. Our Commercial and Consumer segments both offer a diversified mix of managed care products, including PPOs, HMOs, traditional indemnity benefits and POS plans, as well as a variety of hybrid benefit plans, including CDHPs, hospital only and limited benefit products.

Our Commercial segment includes Local Group (including UniCare), National Accounts and certain other ancillary business operations (dental, vision, life and disability and workers compensation). Business units in the Commercial segment offer fully-insured products and 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.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

20. Segment Information (continued)

Our Consumer segment includes Senior, State-Sponsored and Individual business. Senior business includes services such as Medicare Advantage, Medicare Part D, and Medicare Supplement, while State-Sponsored business includes our managed care alternatives for Medicaid and State Children s Health Insurance Plan programs.

Our Other segment includes the Comprehensive Health Solutions Business unit, or CHS, that brings together our resources focused on optimizing the quality of health care and cost of care management. CHS included our PBM business until its sale to Express Scripts on December 1, 2009, and also includes provider relations, care and disease management, employee assistance programs, including behavioral health, radiology benefit management and analytics-driven personal health care guidance. Our Other segment also includes results from our Federal Government Solutions, or FGS, business. FGS business includes the Federal Employee Program and National Government Services, Inc., which acts as a Medicare contractor in several regions across the nation. The Other segment also includes other businesses that do not meet the quantitative thresholds for an operating segment, as well as intersegment sales and expense eliminations and corporate expenses not allocated to the other reportable segments.

We define operating revenues to include premium income, administrative fees and other revenues. Operating revenues are derived from premiums and fees received primarily from the sale and administration of health benefit products. Operating gain is calculated as total operating revenue less benefit expense, selling, general and administrative expense and cost of drugs.

Through our participation in various federal government programs, we generated approximately 22%, 19% and 20% of our total consolidated revenues from agencies of the U.S. government for the years ended December 31, 2010, 2009, and 2008, respectively. These revenues are contained in the Consumer and Other segments.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 2, Basis of Presentation and Significant Accounting Policies, except that certain shared administrative expenses for each segment are recognized on a pro rata allocated basis, which in aggregate approximates the consolidated expense. Any difference between the allocated expenses and actual consolidated expense is included in other expenses not allocated to reportable segments. Intersegment sales and expenses are recorded at cost and eliminated in the consolidated financial statements. We evaluate performance of the reportable segments based on operating gain or loss as defined above. We evaluate investment income, gain on sale of business, net realized gains on investments, other-than-temporary impairment losses recognized in income, interest expense, amortization expense and income taxes, and asset and liability details on a consolidated basis as these items are managed in a corporate shared service environment and are not the responsibility of segment operating management.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

20. Segment Information (continued)

Financial data by reportable segment for the years ended December 31 is as follows:

	Commercial	Consumer	Other and Eliminations	Total
Year ended December 31, 2010				
Operating revenue from external customers	$ 34,662.6	$ 16,092.6	$ 7,088.6	$ 57,843.8
Operating gain (loss)	3,085.7	1,000.6	(8.8)	4,077.5
Depreciation and amortization of property and equipment			297.4	297.4
Year ended December 31, 2009				
Operating revenue from external customers	$ 37,363.4	$ 16,141.8	$ 7,323.4	$ 60,828.6
Intersegment revenue			2,836.6	2,836.6
Elimination of intersegment revenue			(2,836.6)	(2,836.6)
Operating gain	2,430.3	1,279.7	469.4	4,179.4
Depreciation and amortization of property and equipment			291.4	291.4
Year ended December 31, 2008				
Operating revenue from external customers	$ 38,009.3	$ 16,437.3	$ 7,132.6	$ 61,579.2
Intersegment revenue			2,572.8	2,572.8
Elimination of intersegment revenue			(2,572.8)	(2,572.8)
Operating gain	3,392.7	585.1	370.0	4,347.8
Depreciation and amortization of property and equipment			277.4	277.4

The major product revenues from external customers for each of the reportable segments for the years ended December 31, are as follows:

	2010	2009	2008
Commercial			
Managed care products	$ 30,186.4	$ 32,955.1	$ 33,676.4
Managed care services	3,262.5	3,167.9	3,078.3
Dental/Vision products and services	811.4	831.5	827.6
Other	402.3	408.9	427.0
Total Commercial	34,662.6	37,363.4	38,009.3
Consumer			
Managed care products	16,059.6	16,126.8	16,372.8
Managed care services	33.0	15.0	64.5
Total Consumer	16,092.6	16,141.8	16,437.3
Other			

Government services	6,923.8	6,465.9	6,222.5
Pharmacy products and services		681.3	716.2
Other	164.8	176.2	193.9
Total Other	7,088.6	7,323.4	7,132.6
Total revenues from external customers	$ 57,843.8	$ 60,828.6	$ 61,579.2

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

20. Segment Information (continued)

The classification between managed care products and managed care services in the above table primarily distinguishes between the level of risk assumed. Managed care products represent insurance products where we bear the insurance risk, whereas managed care services represent product offerings where we provide claims adjudication and other administrative services to the customer, but the customer principally bears the insurance risk.

Asset and equity details by reportable segment have not been disclosed, as we do not internally report such information.

A reconciliation of reportable segment operating revenues to the amounts of total revenues included in the consolidated statements of income for the years ended December 31, is as follows:

	2010	2009	2008
Reportable segments operating revenues	$ 57,843.8	$ 60,828.6	$ 61,579.2
Net investment income	803.3	801.0	851.1
Gain on sale of business		3,792.3	
Net realized gains on investments	194.1	56.4	28.7
Other-than-temporary impairment losses recognized in income	(39.4)	(450.2)	(1,207.9)
Total revenues	$ 58,801.8	$ 65,028.1	$ 61,251.1

A reconciliation of reportable segment operating gain to income before income taxes included in the consolidated statements of income for the years ended December 31 is as follows:

	2010	2009	2008
Reportable segments operating gain	$ 4,077.5	$ 4,179.4	$ 4,347.8
Net investment income	803.3	801.0	851.1
Gain on sale of business		3,792.3	
Net realized gains on investments	194.1	56.4	28.7
Other-than-temporary impairment losses recognized in income	(39.4)	(450.2)	(1,207.9)
Interest expense	(418.9)	(447.4)	(469.8)
Amortization of other intangible assets	(241.7)	(266.0)	(286.1)
Impairment of goodwill and other intangible assets	(21.1)	(262.5)	(141.4)
Income before income taxes	$ 4,353.8	$ 7,403.0	$ 3,122.4

21. Related Party Transactions

WellPoint Foundation, Inc., or the Foundation, is an Indiana non-profit organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed to conduct, support and assist charitable, health-related, educational, and other community-based programs and projects. The officers and directors of the Foundation are also our officers. These officers and directors receive no compensation from the Foundation for the management services performed for the Foundation but may be reimbursed by the Foundation for any cash expenditures incurred on behalf of the Foundation. We received $0.6 from the Foundation for administrative services provided by our associates in 2010. The Foundation is not a subsidiary of ours and the financial results of the Foundation are not consolidated with our financial statements. No contributions were made to the Foundation in 2010 or 2008. A contribution of $10.0 was made to the Foundation in 2009. We have no current legal obligations for future commitments to the Foundation.

WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

22. Statutory Information (Unaudited)

Our insurance and HMO subsidiaries, excluding Blue Cross of California, report their accounts in conformity with accounting practices prescribed or permitted by state insurance regulatory authorities, or statutory, which vary in certain respects from GAAP. Blue Cross of California is regulated by the California Department of Managed Health Care and reports its accounts in conformity with GAAP. Typical differences of GAAP reporting as compared to statutory reporting are the inclusion of unrealized gains or losses relating to fixed maturity securities in shareholders equity, recognition of all assets including those that are non-admitted for statutory purposes and recognition of all deferred tax assets without regard to statutory limits. The National Association of Insurance Commissioners, or NAIC, developed a codified version of the statutory accounting principles, designed to foster more consistency among the states for accounting guidelines and reporting.

Our insurance and HMO subsidiaries that are subject to statutory reporting are domiciled in various jurisdictions. These subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the respective jurisdictions insurance regulators. Prescribed statutory accounting practices are set forth in a variety of publications of the NAIC as well as state laws, regulations and general administrative rules.

Our ability to pay dividends and credit obligations is significantly dependent on receipt of dividends from our subsidiaries. The payment of dividends to us by our insurance and HMO subsidiaries without prior approval of the insurance departments of each subsidiary s domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments or the California Department of Managed Health Care.

Our statutory basis insurance and HMO subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the NAIC to determine the minimum amount of statutory capital appropriate for an insurance company or HMO to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, which are applied to certain financial balances and financial activity. Below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. Additionally, Blue Cross of California is subject to capital and solvency requirements as prescribed by the California Department of Managed Health Care. As of December 31, 2010 and 2009, all of our regulated subsidiaries exceeded the minimum risk-based capital requirements and/or capital and solvency requirements of their applicable governmental regulator. Statutory-basis capital and surplus of our insurance and HMO subsidiaries and capital and surplus of our other regulated subsidiaries, excluding Blue Cross of California, was $8,089.0 and $7,659.8 at December 31, 2010 and 2009, respectively. Statutory-basis net income of our insurance and HMO subsidiaries and net income of our other regulated subsidiaries, excluding Blue Cross of California, was $2,933.8, $4,643.6 and $2,719.8 for 2010, 2009 and 2008, respectively. GAAP equity of Blue Cross of California was $1,258.8 and $1,377.3 at December 31, 2010 and 2009, respectively. GAAP net income of Blue Cross of California was $413.5, $450.5 and $285.9 for the years ended December 31, 2010, 2009 and 2008, respectively.

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WellPoint, Inc.

Notes to Consolidated Financial Statements (continued)

23. Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data is as follows:

	For the Quarter Ended			
	March 31	June 30	September 30	December 31
2010				
Total revenues	$ 15,098.5	$ 14,457.2	$ 14,598.2	$ 14,647.9
Income before income taxes	1,335.3	1,129.6	1,136.8	752.1
Net income	876.8	722.4	739.1	548.8
Basic net income per share	1.99	1.73	1.86	1.41
Diluted net income per share	1.96	1.71	1.84	1.40
2009				
Total revenues	$ 15,143.3	$ 15,413.2	$ 15,425.1	$ 19,046.5
Income before income taxes	893.6	1,052.5	1,117.2	4,339.7
Net income	580.4	693.5	730.2	2,741.8
Basic net income per share	1.17	1.44	1.55	6.02
Diluted net income per share	1.16	1.43	1.53	5.95

24. Subsequent Events

We have evaluated subsequent events for recognition or disclosure in our consolidated financial statements filed on Form 10-K with the SEC and no events, other than those described in these notes, have occurred that require disclosure.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes in or disagreements with our independent registered public accounting firm on accounting or financial disclosures.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation as of December 31, 2010, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be disclosed in our reports under the Exchange Act. In addition based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management s Report on Internal Control Over Financial Reporting

Management, under the supervision and with the participation of the principal executive officer and principal financial officer, of WellPoint, Inc., or the Company, is responsible for establishing and maintaining effective internal control over financial reporting, or Internal Control, as such term is defined in the Securities Exchange Act of 1934, as amended. The Company s Internal Control is designed to provide reasonable assurance regarding the reliability of the Company s financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles, or GAAP. The Company s Internal Control includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of inherent limitations in any Internal Control, no matter how well designed, misstatements due to error or fraud may occur and not be detected. Accordingly, even effective Internal Control can provide only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management, under the supervision and with the participation of the principal executive officer and principal financial officer, assessed the effectiveness of the Company s Internal Control as of December 31, 2010. Management s assessment was based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on management s assessment, management has concluded that the Company s Internal Control was effective as of December 31, 2010 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

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Ernst & Young LLP, the Company s independent registered public accounting firm, has audited the consolidated financial statements of the Company for the year ended December 31, 2010, and has also issued an audit report dated February 17, 2011, on the effectiveness of the Company s internal control over financial reporting as of December 31, 2010, which is included in this Annual Report on Form 10-K.

/s/ ANGELA F. BRALY	/s/ WAYNE S. DEVEYDT
Chair of the Board, President and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer

Changes in Internal Control over Financial Reporting

We have implemented certain enhancements to our internal controls over financial reporting within our Senior business partly in response to The Centers for Medicare and Medicaid Services , or CMS , requests for corrective action plans in connection with the marketing of and enrollment in the Medicare Advantage and Medicare Part D prescription drug plans. On September 9, 2009, CMS notified us that the sanctions have been lifted subsequent to our remediation efforts. We were not allowed to participate in the auto-enrollment or reassignment of Medicare Part D Low Income Subsidy, or LIS, beneficiaries beginning on October 1, 2008. We worked with CMS to demonstrate that our agreed corrective action plans related to the Medicare Part D and LIS programs had been completed. CMS notified us on June 15, 2010 that we were again eligible to enroll LIS beneficiaries with an effective date of September 1, 2010. While we have enhanced certain internal controls related to our Senior business, there have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

WellPoint, Inc.

We have audited WellPoint, Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). WellPoint, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A

company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made

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only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, WellPoint, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of WellPoint, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2010 of WellPoint, Inc. and our report dated February 17, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

February 17, 2011

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item concerning our Executive Officers, Directors and nominees for Director, Audit Committee members and financial expert(s) and concerning disclosure of delinquent filers under Section 16(a) of the Exchange Act and our Standards of Business Conduct is incorporated herein by reference from our definitive Proxy Statement for our 2011 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item concerning remuneration of our Executive Officers and Directors, material transactions involving such Executive Officers and Directors and Compensation Committee interlocks, as well as the Compensation Committee Report, are incorporated herein by reference from our definitive Proxy Statement for our 2011 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item concerning the stock ownership of management and five percent beneficial owners and securities authorized for issuance under equity compensation plans is incorporated herein by reference from our definitive Proxy Statement for our 2011 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item concerning certain relationships and related person transactions and director independence is incorporated herein by reference from our definitive Proxy Statement for our 2011 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item concerning principal accounting fees and services is incorporated herein by reference from our definitive Proxy Statement for our 2011 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

The following consolidated financial statements of the Company are set forth in Part II, Item 8.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2010 and 2009

Consolidated Statements of Income for the years ended December 31, 2010, 2009, and 2008

Consolidated Statements of Shareholders   Equity for the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

The following financial statement schedule of the Company is included in Item 15(c):

Schedule II   Condensed Financial Information of Registrant (Parent Company Only).

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable, or the required information is included in the consolidated financial statements, and therefore have been omitted.

3. Exhibits:

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

(b) Exhibits

The response to this portion of Item 15 is submitted as a separate section of this report.

(c) Financial Statement Schedule

Schedule II Condensed Financial Information of Registrant (Parent Company Only).

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Schedule II Condensed Financial Information of Registrant

WellPoint, Inc. (Parent Company Only)

Balance Sheets

(In millions, except share data)	December 31	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	$ 605.7	$ 3,318.3
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $2,499.4 and $1,163.0)	2,628.1	1,169.4
Equity securities (cost of $49.1 and $23.4)	69.3	27.7
Other invested assets, current	6.4	9.3
Other receivables	62.8	179.0
Income taxes receivable	46.9	93.5
Net due from subsidiaries	245.0	220.0
Securities lending collateral	119.1	32.9
Deferred tax assets, net	10.4	105.0
Other current assets	132.8	98.1
Total current assets	3,926.5	5,253.2
Long-term investments available-for-sale, at fair value:		
Equity securities (cost of $7.0 and $7.1)	7.0	7.1
Other invested assets, long-term	433.1	394.2
Property and equipment, net	8.8	3.3
Deferred tax assets, net	334.2	277.5
Investment in subsidiaries	28,243.2	27,692.6
Other noncurrent assets	103.3	95.3
Total assets	$ 33,056.1	$ 33,723.2
Liabilities and shareholders equity		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 427.8	$ 358.1
Securities trades pending payable	27.1	36.1
Securities lending payable	119.1	32.9
Current portion of long-term debt	700.0	52.5
Other current liabilities	184.4	232.8
Total current liabilities	1,458.4	712.4
Long-term debt	7,667.8	7,908.1
Other noncurrent liabilities	117.3	239.4
Total liabilities	9,243.5	8,859.9

Commitments and contingencies Note 5

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: 377,736,929 and 449,789,672	3.8	4.5
Additional paid-in capital	12,862.6	15,192.2
Retained earnings	10,721.6	9,598.5
Accumulated other comprehensive income	224.6	68.1
Total shareholders equity	23,812.6	24,863.3
Total liabilities and shareholders equity	$ 33,056.1	$ 33,723.2

See accompanying notes.

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Schedule II Condensed Financial Information of Registrant (continued)

WellPoint, Inc. (Parent Company Only)

Statements of Income

(In millions)	Years ended December 31		
	2010	**2009**	**2008**
Revenues			
Net investment income	$ 53.9	$ 35.8	$ 83.2
Net realized losses on investments	(58.0)	(1.6)	(6.9)
Other-than-temporary impairment losses on investments:			
Total other-than-temporary impairment losses on investments	(15.2)	(47.8)	(306.2)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	0.2	6.6	
Other-than-temporary impairment losses recognized in income	(15.0)	(41.2)	(306.2)
Other revenue	3.2	0.4	0.4
Total revenues	(15.9)	(6.6)	(229.5)
Expenses			
General and administrative expense	105.5	116.4	106.9
Interest expense	394.4	419.2	440.8
Total expenses	499.9	535.6	547.7
Loss before income tax credits and equity in net income of subsidiaries	(515.8)	(542.2)	(777.2)
Income tax credits	(239.8)	(227.8)	(359.3)
Equity in net income of subsidiaries	3,163.1	5,060.3	2,908.6
Net income	$ 2,887.1	$ 4,745.9	$ 2,490.7

See accompanying notes.

Schedule II Condensed Financial Information of Registrant (continued)

WellPoint, Inc. (Parent Company Only)

Statements of Cash Flows

(In millions)	Year ended December 31		
	2010	**2009**	**2008**
Operating activities			
Net income	$ 2,887.1	$ 4,745.9	$ 2,490.7
Adjustments to reconcile net income to net cash provided by operating activities:			
(Undistributed) distributed earnings of subsidiaries	(417.1)	602.4	973.5
Net realized losses on investments	58.0	1.6	6.9
Other-than-temporary impairment losses recognized in income	15.0	41.2	306.2
(Gain) loss on disposal of assets	(0.8)	1.3	
Deferred income taxes	0.6	11.2	(3.8)
Amortization, net of accretion	27.1	(1.6)	11.3
Depreciation	0.3	0.3	0.4
Share-based compensation	136.0	153.6	156.0
Excess tax benefits from share-based compensation	(28.1)	(9.6)	(16.0)
Changes in operating assets and liabilities, net of effect of business combinations:			
Receivables, net	23.3	(62.2)	5.2
Other invested assets, current	2.9	(2.2)	1.9
Other assets	(33.0)	(13.5)	(68.4)
Amounts due to (from) subsidiaries	(25.0)	949.4	(859.1)
Accounts payable and accrued expenses	(3.6)	144.8	55.9
Other liabilities	(109.3)	124.4	(506.3)
Income taxes	67.9	84.0	(94.5)
Net cash provided by operating activities	2,601.3	6,771.0	2,459.9
Investing activities			
Purchases of investments	(4,329.0)	(1,052.8)	(1,155.8)
Proceeds from sales, maturities and redemptions of investments	2,924.2	144.5	2,363.3
Capitalization of subsidiaries	(31.1)	(6.4)	(88.7)
Change in securities lending collateral	(86.2)	(14.7)	190.3
Purchases of property and equipment, net	(5.0)		
Other, net	(114.4)	(68.4)	84.5
Net cash (used in) provided by investing activities	(1,641.5)	(997.8)	1,393.6
Financing activities			
Net payments of commercial paper borrowings	(164.4)	(397.0)	(900.6)
Proceeds from long-term borrowings	988.5	990.3	525.0
Repayment of long-term borrowings	(433.1)	(906.2)	(26.3)
Changes in securities lending payable	86.2	14.7	(190.3)
Change in bank overdrafts	39.0	(17.1)	(35.2)
Repurchase and retirement of common stock	(4,360.3)	(2,638.4)	(3,276.2)
Proceeds from exercise of employee stock options and employee stock purchase plan	143.6	126.5	121.2
Excess tax benefits from share-based compensation	28.1	9.6	16.0
Net cash used in financing activities	(3,672.4)	(2,817.6)	(3,766.4)

Change in cash and cash equivalents	(2,712.6)	2,955.6	87.1
Cash and cash equivalents at beginning of year	3,318.3	362.7	275.6
Cash and cash equivalents at end of year	$ 605.7	$ 3,318.3	$ 362.7

See accompanying notes.

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Schedule II Condensed Financial Information of Registrant (continued)

WellPoint, Inc.

(Parent Company Only)

Notes to Condensed Financial Statements

December 31, 2010

(In Millions, Except Per Share Data)

1. Basis of Presentation and Significant Accounting Policies

In the parent company only financial statements of WellPoint, Inc., or WellPoint, WellPoint s investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries. WellPoint s share of net income of its unconsolidated subsidiaries is included in income using the equity method of accounting.

Certain amounts presented in the parent company only financial statements are eliminated in the consolidated financial statements of WellPoint.

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

WellPoint s parent company only financial statements should be read in conjunction with WellPoint s audited consolidated financial statements and the accompanying notes included in this Form 10-K.

2. Subsidiary Transactions

Dividends

WellPoint received cash dividends from subsidiaries of $2,746.0, $5,662.7, and $3,882.1 during 2010, 2009, and 2008, respectively.

Investment in Subsidiaries

Capital contributions to subsidiaries were $31.1, $6.4, and $88.7 during 2010, 2009, and 2008, respectively.

Amounts Due to and From Subsidiaries

At December 31, 2010 and 2009, WellPoint reported $245.0 and $220.0 due from subsidiaries, respectively. These amounts consisted principally of administrative expenses and are routinely settled, and as such, are classified as current assets.

Sale of PBM Business

On December 1, 2009, certain subsidiaries of WellPoint sold their pharmacy benefits management subsidiaries, or PBM business, to Express Scripts, Inc., or Express Scripts, and received $4,675.0 in cash, subject to customary working capital adjustments. The pre-tax and after-tax gains on the sale were $3,792.3 and $2,361.2, respectively. The after-tax gain of $2,361.2 is included as equity in net income of subsidiaries in WellPoint s parent company only income statement.

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Schedule II Condensed Financial Information of Registrant (continued)

WellPoint, Inc.

(Parent Company Only)

Notes to Condensed Financial Statements (continued)

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3. Derivative Financial Instruments

The information regarding derivative financial instruments contained in Note 6, Derivative Financial Instruments, of the Notes to Consolidated Financial Statements of WellPoint and its subsidiaries is incorporated herein by reference.

4. Long-Term Debt

The carrying value of long-term debt at December 31 consists of the following:

	December 31	
	2010	**2009**
Senior unsecured notes:		
5.000%, face amount of $700.0, due 2011	$ 701.8	$ 698.7
6.800%, face amount of $800.0, due 2012	842.0	846.2
5.000%, face amount of $500.0, due 2014	547.5	532.9
6.000%, face amount of $400.0, due 2014	397.6	396.8
5.250%, face amount of $1,100.0, due 2016	1,093.4	1,092.1
5.875%, face amount of $700.0, due 2017	693.0	692.1
7.000%, face amount of $600.0, due 2019	595.2	594.7
4.350%, face amount of $700.0, due 2020	693.3	
5.950%, face amount of $500.0, due 2034	494.9	494.7
5.850%, face amount of $900.0, due 2036	889.7	889.3
6.375%, face amount of $800.0, due 2037	789.7	789.4
5.800%, face amount of $300.0, due 2040	293.5	
Variable rate debt:		
Commercial paper program	336.2	500.6
Senior term loan		433.1
Total debt	8,367.8	7,960.6
Current portion of debt	(700.0)	(52.5)
Long-term debt, less current portion	$ 7,667.8	$ 7,908.1

At maturity on January 15, 2011, we repaid the $700.0 outstanding balance of our 5.000% senior unsecured notes.

On September 30, 2010, we entered into a senior credit facility, or the facility, with certain lenders for general corporate purposes. The facility provides credit up to $2,000.0 and matures on September 30, 2013. The interest rate on the facility is based on either, (i) the LIBOR rate plus a predetermined percentage rate based on our credit rating at the date of utilization, or (ii) a base rate as defined in the facility agreement plus a predetermined percentage rate based on our credit rating at the date of utilization. Our ability to borrow under the facility is subject to compliance with certain covenants. Commitment and legal fees paid for the facility were $7.6 and there are no conditions that are probable of occurring under which the facility may be withdrawn. There were no amounts outstanding under the facility as of or during the three months ended December 31, 2010, or under a previous facility during the nine months ended September 30, 2010. At December 31, 2010, we had $2,000.0 available under the facility. This facility replaced our previous senior credit facility, which provided credit up to $2,392.0.

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Schedule II Condensed Financial Information of Registrant (continued)

WellPoint, Inc.

(Parent Company Only)

Notes to Condensed Financial Statements (continued)

4. Long-Term Debt (continued)

On August 12, 2010, we issued $700.0 of 4.350% notes due 2020 and $300.0 of 5.800% notes due 2040 under our shelf registration statement. We used the proceeds from this debt issuance to repay the remaining outstanding balance of our variable rate senior term loan and for general corporate purposes. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows a note holder to require us to repurchase the notes upon the occurrence of both a change of control event and a downgrade of the notes.

In July 2009, May 2009 and March 2009, we repurchased $390.0, $300.0 and $400.0, respectively, of our $1,090.0 face value due at maturity zero coupon notes. The notes were issued in August 2007 in a private placement transaction. We paid cash totaling $553.8 to repurchase the notes, which had a remaining carrying value of zero at December 31, 2010.

On February 5, 2009 we issued $400.0 of 6.000% notes due 2014 and $600.0 of 7.000% notes due 2019 under our shelf registration statement. The proceeds from this debt issuance were used for general corporate purposes, including, but not limited to, repayment of short-term debt and repurchasing shares of our common stock. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows a note holder to require us to repurchase the notes upon the occurrence of both a change of control event and a downgrade of the notes.

We have an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. The weighted-average interest rate on commercial paper borrowings at December 31, 2010 and 2009 was 0.359% and 0.340%, respectively. Commercial paper borrowings have been classified as long-term debt at December 31, 2010 and 2009 as our practice and intent is to replace short-term commercial paper outstanding at expiration with additional short-term commercial paper for an uninterrupted period extending for more than one year or our ability to redeem our commercial paper with borrowings under the senior credit facility described above.

Interest paid during 2010, 2009, and 2008 was $384.5, $368.9, and $408.5, respectively.

We were in compliance with all applicable covenants under our outstanding debt agreements.

Future maturities of long-term debt are as follows: 2011, $1,038.0; 2012, $842.0; 2013, $0.0; 2014, $945.1; 2015, $0.0 and thereafter, $5,542.7.

5. Commitments and Contingencies

The information regarding commitments and contingencies contained in Note 14, Commitments and Contingencies, of the Notes to Consolidated Financial Statements of WellPoint and its subsidiaries is incorporated herein by reference.

6. Capital Stock

The information regarding capital stock contained in Note 15, Capital Stock, of the Notes to Consolidated Financial Statements of WellPoint and its subsidiaries is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WELLPOINT, INC.

By: /s/ ANGELA F. BRALY
Angela F. Braly
Chair of the Board, President and
Chief Executive Officer

Dated: February 17, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ANGELA F. BRALY **Angela F. Braly**	Chair of the Board, President and Chief Executive Officer and Director (Principal Executive Officer)	February 17, 2011
/s/ WAYNE S. DEVEYDT **Wayne S. DeVeydt**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 17, 2011
/s/ MARTIN L. MILLER **Martin L. Miller**	Senior Vice President, Controller, Chief Accounting Officer and Chief Risk Officer (Principal Accounting Officer)	February 17, 2011
/s/ LENOX D. BAKER, JR., M.D. **Lenox D. Baker, Jr., M.D.**	Director	February 17, 2011
/s/ SUSAN B. BAYH **Susan B. Bayh**	Director	February 17, 2011
/s/ SHEILA P. BURKE **Sheila P. Burke**	Director	February 17, 2011
/s/ WILLIAM H.T. BUSH **William H.T. Bush**	Director	February 17, 2011
/s/ JULIE A. HILL **Julie A. Hill**	Director	February 17, 2011

/s/ WARREN Y. JOBE	Director	February 17, 2011
Warren Y. Jobe		

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Signature	Title	Date
/s/ William G. Mays	Director	February 17, 2011
William G. Mays		
/s/ Ramiro G. Peru	Director	February 17, 2011
Ramiro G. Peru		
/s/ Senator Donald W. Riegle, Jr.	Director	February 17, 2011
Senator Donald W. Riegle, Jr.		
/s/ William J. Ryan	Director	February 17, 2011
William J. Ryan		
/s/ George A. Schaefer, Jr.	Director	February 17, 2011
George A. Schaefer, Jr.		
/s/ Jackie M. Ward	Director	February 17, 2011
Jackie M. Ward		

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INDEX TO EXHIBITS

Exhibit Number	Exhibit
2.1	Stock and Interest Purchase Agreement dated April 9, 2009, by and between the Company and Express Scripts, Inc., incorporated by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K filed April 13, 2009.
3.1	Articles of Incorporation of the Company, as amended effective May 17, 2007, incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on May 18, 2007.
3.2	By-laws of the Company, as amended effective December 9, 2010, incorporated by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K filed on December 13, 2010.
4.1	Articles of Incorporation of the Company, as amended effective May 17, 2007 (Included in Exhibit 3.1).
4.2	By-laws of the Company, as amended effective December 9, 2010 (Included in Exhibit 3.2).
4.3	Specimen of Certificate of the Company s common stock, $0.01 par value per share, incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-8 filed on December 28, 2005 (Registration No. 333-130743).
4.4	Indenture, dated as of July 31, 2002, between the Company and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.13 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, SEC File No. 001-16751.
	(a) First Supplemental Indenture, dated as of July 31, 2002, between the Company and The Bank of New York, Trustee, establishing 6.800% Notes due 2012, incorporated by reference to Exhibit 4.14 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, SEC File No. 001-16751.
	(b) Form of 6.800% Note due 2012 (Included in Exhibit 4.4(a)), incorporated by reference to Exhibit 4.14 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, SEC File No. 001-16751.
4.5	Amended and Restated Indenture, dated as of June 8, 2001, by and between WellPoint Health Networks Inc. (as predecessor by merger to Anthem Holding Corp., WellPoint Health) and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.3 to WellPoint Health s Current Report on Form 8-K filed on June 12, 2001, SEC File No. 001-13083.
	(a) First Supplemental Indenture, dated as of November 30, 2004, between Anthem Holding Corp. and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.11(a) to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, SEC File No. 001-16751.
	(b) Form of Note evidencing WellPoint Health s 63/8% Notes due 2012, incorporated by reference to Exhibit 4.1 to WellPoint Health s Current Report on Form 8-K filed on January 16, 2002, SEC File No. 001-13083.
4.6	Indenture, dated as of December 9, 2004, between the Company and The Bank of New York Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on December 15, 2004, SEC File No. 001-16751.
	(a) Form of the Company s 5.000% Notes due 2014 (included in Exhibit 4.6).
	(b) Form of the Company s 5.950% Notes due 2034 (included in Exhibit 4.6).

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Exhibit Number	Exhibit
4.7	Indenture, dated as of January 10, 2006, between the Company and The Bank of New York Trust Company, N.A., as trustee, incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on January 11, 2006, SEC File No. 001-16751.
	(a) Form of 5.00% Notes due 2011, incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on January 11, 2006, SEC File No. 001-16751.
	(b) Form of 5.25% Notes due 2016, incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on January 11, 2006, SEC File No. 001-16751.
	(c) Form of 5.85% Notes due 2036, incorporated by reference to Exhibit 4.4 to the Company s Current Report on Form 8-K filed on January 11, 2006, SEC File No. 001-16751.
	(d) Form of 5.875% Notes due 2017, incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on June 8, 2007.
	(e) Form of 6.375% Notes due 2037, incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on June 8, 2007.
	(f) Form of 6.000% Notes due 2014, incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on February 5, 2009.
	(g) Form of 7.000% Notes due 2019, incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on February 5, 2009.
	(h) Form of 4.350% Notes due 2020, incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on August 12, 2010.
	(i) Form of 5.800% Notes due 2040, incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on August 12, 2010.
4.8	Upon the request of the Securities and Exchange Commission, the Company will furnish copies of any other instruments defining the rights of holders of long-term debt of the Company or its subsidiaries.
10.1*	Anthem 2001 Stock Incentive Plan, amended and restated as of January 1, 2003, incorporated by reference to Exhibit 10.1(iii) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, SEC File No. 001-16751.
	(a) Form of Stock Incentive Plan General Stock Option Grant Agreement as of March 1, 2006, incorporated by reference to Exhibit 10.1(b) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, SEC File No. 001-16751.
10.2*	WellPoint Incentive Compensation Plan as amended and restated effective May 20, 2009, incorporated by reference to Exhibit 99 to the Company s Registration Statement on Form S-8 filed June 8, 2009.
	(a) First Amendment to WellPoint Incentive Compensation Plan effective December 8, 2010.
	(b) Form of Incentive Compensation Plan Nonqualified Stock Option Award Agreement under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.58(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
	(c) Form of Non-Qualified Stock Option Award Agreement under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.58(f) to the Company s Current Report on Form 8-K filed on November 2, 2006.
	(d) Form of Incentive Compensation Plan Nonqualified Stock Option Award Agreement under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.2(j) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

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Exhibit Number	Exhibit
	(e) Form of Incentive Compensation Plan Nonqualified Stock Option Award Agreement for 2008 under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.2(k) to the Company s Annual Report on Form 10-K for the year ended December 31, 2007.
	(f) Form of Restricted Stock Unit Grant Agreement for 2008 under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed on March 7, 2008.
	(g) Form of Incentive Compensation Plan Nonqualified Stock Option Award Agreement for 2009 under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.2(m) to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.
	(h) Form of Restricted Stock Unit Grant Agreement for 2009 under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.2(n) to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.
	(i) Form of Performance Share Award Agreement for 2009 under the 2006 Incentive Compensation Plan, incorporated by reference to Exhibit 10.2(o) to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.
	(j) Form of Incentive Compensation Plan Non-Qualified Stock Option Award Agreement, incorporated by reference to Exhibit 10.2(o) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.
	(k) Form of Incentive Compensation Plan Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 10.2(p) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.
	(l) Form of Incentive Compensation Plan Performance Share Award Agreement, incorporated by reference to Exhibit 10.2(p) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.
10.3*	WellPoint, Inc. Comprehensive Non-Qualified Deferred Compensation Plan, as amended and restated effective January 1, 2011.
10.4*	WellPoint, Inc. Executive Agreement Plan, amended and restated effective January 1, 2009, incorporated by reference to Exhibit 10.4 to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.
	(a) Amendment to the WellPoint, Inc. Executive Agreement Plan effective as of April 1, 2009, incorporated by reference to Exhibit 10.4(a) of the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
10.5*	WellPoint, Inc. Executive Salary Continuation Plan effective January 1, 2006, incorporated by reference to Exhibit 10.59 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.6*	WellPoint Directed Executive Compensation Plan amended effective January 1, 2009, incorporated by reference to Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.
10.7*	WellPoint, Inc. Board of Directors Compensation Program, as amended March 1, 2010, incorporated by reference to Exhibit 10.7 to the Company s Current Report on Form 8-K filed on February 3, 2010.
10.8*	WellPoint Board of Directors Deferred Compensation Plan, as amended and restated effective January 1, 2009, incorporated by reference to Exhibit 10.8 to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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Exhibit Number	Exhibit
10.9*	WellPoint Health Networks Inc. 1999 Stock Incentive Plan (as amended through December 6, 2000), incorporated by reference to Exhibit 10.37 to WellPoint Health s Annual Report on Form 10-K for the year ended December 31, 2000, SEC File No. 001-13083.
	(a) Form of WellPoint Health Networks Inc. 1999 Stock Incentive Plan Notice of Grant of Stock Option and Stock Option Agreement, revised December 2001, incorporated by reference to Exhibit 10.01 to WellPoint Health s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, SEC File No. 001-13083.
	(b) Form of WellPoint Health Networks Inc. 1999 Stock Incentive Plan Notice of Grant of Stock Option and Stock Option Agreement, revised September 2003, incorporated by reference to Exhibit 10.02 to WellPoint Health s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, SEC File No. 001-13083.
	(c) Form of WellPoint Health Networks Inc. 1999 Stock Incentive Plan Notice of Automatic Grant of Stock Option, Notice of Annual Automatic Grant of Stock Option, Notice of Grant of Stock Option and Automatic Stock Option Agreement for Non-Employee Directors, incorporated by reference to Exhibit 10.09 to WellPoint Health s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, SEC File No. 001-13083.
10.10*	RightCHOICE Managed Care, Inc. Supplemental Executive Retirement Plan as restated effective October 10, 2001, incorporated by reference to Exhibit 10.06 to WellPoint Health s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, SEC File No. 001-13083.
10.11*	Employment Agreement between WellPoint, Inc. and Angela F. Braly, dated as of February 24, 2007, incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 26, 2007.
	(a) Amendment to Employment Agreement between WellPoint, Inc. and Angela F. Braly effective as of January 1, 2009, incorporated by reference to Exhibit 10.12(a) to the Company s Annual Report on Form 10-K for the year ended December 31, 2008.
10.12*	Employment Agreement by and between Anthem Insurance Companies, Inc. and Samuel R. Nussbaum, M.D., dated as of January 2, 2001 (with respect to Section 5(c) only), incorporated by reference to Exhibit 10.5 to the Company s Registration Statement on Form S-1 (Registration No. 333-67714).
10.13*	(a) Form of Employment Agreement between the Company and each of the following: Randal Brown; Ken R. Goulet; and, Samuel R. Nussbaum, M.D., incorporated by reference to Exhibit 10.43 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005, SEC File No. 001-16751.
	(b) Form of Employment Agreement between the Company and each of the following: Lori Beer; Wayne S. DeVeydt; and, Brian Sassi, incorporated by reference to Exhibit A to Exhibit 10.7 to the Company s Current Report on Form 8-K filed on November 2, 2006.
	(c) Form of Employment Agreement between the Company and each of the following: John Cannon and Martin L. Miller, incorporated by reference to Exhibit A to Exhibit 10.41 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
10.14	Blue Cross License Agreement by and between Blue Cross Blue Shield Association and the Company, including revisions, if any, adopted by the Member Plans through November 18, 2010.
10.15	Blue Shield License Agreement by and between Blue Cross Blue Shield Association and the Company, including revisions, if any, adopted by the Member Plans through November 18, 2010.

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Exhibit Number	Exhibit
10.16	Undertakings to California Department of Insurance, dated November 8, 2004, delivered by WellPoint Health, BC Life, Anthem, Inc. and Anthem Holding Corp., incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed on November 10, 2004, SEC File No. 001-13083.
10.17	Undertakings to California Department of Managed Health Care, dated November 23, 2004, delivered by WellPoint Health, Golden West, Anthem, Inc. and Anthem Holding Corp, incorporated by reference to Exhibit 99.3 to the Company s Current Report on Form 8-K filed on November 30, 2004, SEC File No. 001-16751.
10.18	Undertakings, dated July 31, 1997, by WellPoint Health, Blue Cross of California and WellPoint California Services, Inc. to the California Department of Corporations, incorporated by reference to Exhibit 99.12 to WellPoint Health s Current Report on Form 8-K filed on August 5, 1997, SEC File No. 001-13083.
21	Subsidiaries of the Company.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from WellPoint, Inc. s Annual Report on Form 10-K for the year ended December 31, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Shareholders Equity; (v) the Notes to Consolidated Financial Statements and (vi) Financial Statement Schedule II.

* Indicates management contracts or compensatory plans or arrangements.

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