Anthem, Inc.
Form 10-Q
July 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended June 30, 2015
OR

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

For the transition period from to
Commission file number: 001-16751
ANTHEM, INC.
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (317) 488-6000
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

Title of Each Class	Outstanding at July 15, 2015
Common Stock, $0.01 par value	261,587,142 shares

Anthem, Inc.
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2015
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Anthem, Inc.
Consolidated Balance Sheets

(In millions, except share data)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$1,553.0	$2,151.7
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $18,021.7 and $17,120.4)	18,236.5	17,467.4
Equity securities (cost of $1,236.7 and $1,303.7)	1,705.4	1,906.6
Other invested assets, current	23.4	20.2
Accrued investment income	168.6	161.4
Premium and self-funded receivables	4,940.8	4,825.5
Other receivables	2,368.0	2,117.0
Income taxes receivable	13.8	308.9
Securities lending collateral	1,718.3	1,515.2
Deferred tax assets, net	295.6	280.4
Other current assets	2,178.8	1,473.9
Total current assets	33,202.2	32,228.2
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $613.5 and $500.7)	613.7	504.4
Equity securities (cost of $27.3 and $27.0)	31.7	31.5
Other invested assets, long-term	1,803.3	1,695.9
Property and equipment, net	1,931.4	1,944.3
Goodwill	17,541.7	17,082.0
Other intangible assets	8,275.5	7,958.1
Other noncurrent assets	864.3	512.3
Total assets	$64,263.8	$61,956.7
Liabilities and shareholders’ equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$7,177.9	$6,861.2
Reserves for future policy benefits	67.7	68.1
Other policyholder liabilities	2,741.4	2,626.5
Total policy liabilities	9,987.0	9,555.8
Unearned income	950.5	1,078.1
Accounts payable and accrued expenses	4,433.8	3,651.8
Security trades pending payable	172.5	66.2
Securities lending payable	1,718.2	1,515.3
Short-term borrowings	540.0	400.0
Current portion of long-term debt	624.9	624.3
Other current liabilities	2,246.3	1,861.2
Total current liabilities	20,673.2	18,752.7

Long-term debt, less current portion	15,468.4	14,019.6
Reserves for future policy benefits, noncurrent	607.6	671.3
Deferred tax liabilities, net	3,226.2	3,226.0
Other noncurrent liabilities	1,225.8	1,035.8
Total liabilities	41,201.2	37,705.4
Commitment and contingencies – Note 10		
Shareholders’ equity		
Preferred stock, without par value, shares authorized – 100,000,000; shares issued and outstanding – none	—	—
Common stock, par value $0.01, shares authorized – 900,000,000; shares issued and outstanding – 261,575,584 and 268,109,932	2.6	2.7
Additional paid-in capital	8,707.4	10,062.3
Retained earnings	14,352.2	14,014.4
Accumulated other comprehensive income	0.4	171.9
Total shareholders’ equity	23,062.6	24,251.3
Total liabilities and shareholders’ equity	$64,263.8	$61,956.7

See accompanying notes.

Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

(In millions, except per share data)	Three Months Ended June 30 2015	Three Months Ended June 30 2014	Six Months Ended June 30 2015	Six Months Ended June 30 2014
Revenues				
Premiums	$18,516.3	$17,068.9	$36,126.8	$33,585.9
Administrative fees	1,229.5	1,151.6	2,456.6	2,269.9
Other revenue	12.5	9.5	26.3	19.0
Total operating revenue	19,758.3	18,230.0	38,609.7	35,874.8
Net investment income	186.7	188.5	354.3	372.2
Net realized gains on investments	92.3	65.8	138.8	107.5
Other-than-temporary impairment losses on investments:				
Total other-than-temporary impairment losses on investments	(26.2)	(11.7)	(41.6)	(22.5)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	4.4	0.8	5.8	0.8
Other-than-temporary impairment losses recognized in income	(21.8)	(10.9)	(35.8)	(21.7)
Total revenues	20,015.5	18,473.4	39,067.0	36,332.8
Expenses				
Benefit expense	15,205.4	14,121.3	29,332.3	27,785.9
Selling, general and administrative expense:				
Selling expense	363.8	388.7	732.0	759.5
General and administrative expense	2,677.0	2,497.1	5,454.0	4,987.8
Total selling, general and administrative expense	3,040.8	2,885.8	6,186.0	5,747.3
Interest expense	154.1	145.6	308.5	291.8
Amortization of other intangible assets	60.1	54.0	112.6	108.0
(Gain) loss on extinguishment of debt	(2.9)	3.0	0.5	6.0
Total expenses	18,457.5	17,209.7	35,939.9	33,939.0
Income from continuing operations before income tax expense	1,558.0	1,263.7	3,127.1	2,393.8
Income tax expense	698.9	532.6	1,402.8	971.3
Income from continuing operations	859.1	731.1	1,724.3	1,422.5
Income from discontinued operations, net of tax	—	—	—	9.6
Net income	$859.1	$731.1	$1,724.3	$1,432.1
Basic net income per share:				
Basic - continuing operations	$3.27	$2.64	$6.51	$5.07
Basic - discontinued operations	—	—	—	0.03
Basic net income per share	$3.27	$2.64	$6.51	$5.10
Diluted net income per share:				
Diluted - continuing operations	$3.13	$2.56	$6.22	$4.92
Diluted - discontinued operations	—	—	—	0.03
Diluted net income per share	$3.13	$2.56	$6.22	$4.95
Dividends per share	$0.6250	$0.4375	$1.2500	$0.8750

See accompanying notes.

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Anthem, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(In millions)	2015	2014	2015	2014
Net income	$859.1	$731.1	$1,724.3	$1,432.1
Other comprehensive (loss) income, net of tax:				
Change in net unrealized gains/losses on investments	(241.2)	144.6	(180.8)	284.9
Change in non-credit component of other-than-temporary impairment losses on investments	(2.8)	(0.5)	0.7	—
Change in net unrealized gains/losses on cash flow hedges	0.9	0.8	1.8	1.5
Change in net periodic pension and postretirement costs	4.9	3.0	9.6	5.9
Foreign currency translation adjustments	0.7	(0.3)	(2.8)	(0.5)
Other comprehensive (loss) income	(237.5)	147.6	(171.5)	291.8
Total comprehensive income	$621.6	$878.7	$1,552.8	$1,723.9

See accompanying notes.

Anthem, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended June 30 2015	2014
Operating activities		
Net income	$1,724.3	$1,432.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	(138.8)	(107.5)
Other-than-temporary impairment losses recognized in income	35.8	21.7
Loss on extinguishment of debt	0.5	6.0
Gain on disposal from discontinued operations	—	(3.2)
Loss on disposal of assets	1.2	0.7
Deferred income taxes	47.5	48.7
Amortization, net of accretion	655.5	381.4
Depreciation expense	50.3	53.4
Impairment of property and equipment	—	2.2
Share-based compensation	68.6	88.9
Excess tax benefits from share-based compensation	(89.0)	(29.3)
Changes in operating assets and liabilities:		
Receivables, net	(318.5)	(839.0)
Other invested assets	(4.0)	(23.6)
Other assets	(388.9)	(108.3)
Policy liabilities	278.8	853.2
Unearned income	(161.1)	130.5
Accounts payable and accrued expenses	231.1	213.0
Other liabilities	488.1	211.5
Income taxes	347.9	179.8
Other, net	(5.8)	(53.7)
Net cash provided by operating activities	2,823.5	2,458.5
Investing activities		
Purchases of fixed maturity securities	(5,530.6)	(5,493.1)
Proceeds from fixed maturity securities:		
Sales	4,371.6	4,024.8
Maturities, calls and redemptions	664.9	645.6
Purchases of equity securities	(1,389.5)	(359.3)
Proceeds from sales of equity securities	1,085.9	255.2
Purchases of other invested assets	(161.1)	(81.9)
Proceeds from sales of other invested assets	38.3	35.8
Settlement of non-hedging derivatives	(32.0)	(46.2)
Changes in securities lending collateral	(202.9)	(976.9)
Purchase of subsidiary, net of cash acquired	(641.6)	—
Proceeds from sale of subsidiary, net of cash sold	—	740.0
Purchases of property and equipment	(229.7)	(271.2)
Other, net	—	(0.1)
Net cash used in investing activities	(2,026.7)	(1,527.3)
Financing activities		
Net proceeds from commercial paper borrowings	697.4	487.9
Proceeds from long-term borrowings	1,228.7	—

Repayments of long-term borrowings	(1,930.0)	(45.1)
Proceeds from short-term borrowings	2,120.0	1,650.0
Repayments of short-term borrowings	(1,980.0)	(1,800.0)
Changes in securities lending payable	202.9	977.0
Changes in bank overdrafts	(233.1)	106.8
Premiums paid on equity call options	(16.6)	—
Proceeds from sale of put options	16.5	—
Repurchase and retirement of common stock	(1,410.6)	(2,077.2)
Cash dividends	(330.5)	(243.9)
Proceeds from issuance of common stock under employee stock plans	155.2	182.5
Excess tax benefits from share-based compensation	89.0	29.3
Net cash used in financing activities	(1,391.1)	(732.7)
Effect of foreign exchange rates on cash and cash equivalents	(4.4)	(0.8)
Change in cash and cash equivalents	(598.7)	197.7
Cash and cash equivalents at beginning of period	2,151.7	1,586.9
Cash and cash equivalents at end of period	$1,553.0	$1,784.6

See accompanying notes.

Anthem, Inc.
Consolidated Statements of Shareholders' Equity
(Unaudited)

(In millions)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
January 1, 2015	268.1	$2.7	$10,062.3	$14,014.4	$ 171.9	$24,251.3
Net income	—	—	—	1,724.3	—	1,724.3
Other comprehensive loss	—	—	—	—	(171.5)	(171.5)
Premiums for equity options	—	—	(16.6)	—	—	(16.6)
Repurchase and retirement of common stock	(9.7)	(0.1)	(357.7)	(1,052.8)	—	(1,410.6)
Dividends and dividend equivalents	—	—	—	(333.7)	—	(333.7)
Issuance of common stock under employee stock plans, net of related tax benefits	3.2	—	193.9	—	—	193.9
Convertible debenture repurchases and conversions	—	—	(1,043.6)	—	—	(1,043.6)
Equity Units contract payments and issuance costs	—	—	(130.9)	—	—	(130.9)
June 30, 2015	261.6	$2.6	$8,707.4	$14,352.2	$ 0.4	$23,062.6
January 1, 2014	293.3	$2.9	$10,765.2	$13,813.9	$ 183.2	$24,765.2
Net income	—	—	—	1,432.1	—	1,432.1
Other comprehensive income	—	—	—	—	291.8	291.8
Settlement of equity options	—	—	(19.4)	—	—	(19.4)
Repurchase and retirement of common stock	(22.6)	(0.2)	(822.1)	(1,254.9)	—	(2,077.2)
Dividends and dividend equivalents	—	—	—	(246.7)	—	(246.7)
Issuance of common stock under employee stock plans, net of related tax benefits	3.8	—	231.1	—	—	231.1
June 30, 2014	274.5	$2.7	$10,154.8	$13,744.4	$ 475.0	$24,376.9

See accompanying notes.

Anthem, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2015
(In Millions, Except Per Share Data or As Otherwise Stated Herein)

1. Organization

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

We are one of the largest health benefits companies in terms of medical membership in the United States, serving 38.5 medical members through our affiliated health plans as of June 30, 2015. We offer a broad spectrum of network-based managed care plans to large and small employer, individual, Medicaid and Medicare markets. Our managed care plans include: preferred provider organizations, or PPOs; health maintenance organizations, or HMOs; point-of-service, or POS, plans; traditional indemnity plans and other hybrid plans, including consumer-driven health plans, or CDHPs; and hospital only and limited benefit products. In addition, we provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. We provide an array of specialty and other insurance products and services such as dental, vision, life and disability insurance benefits, radiology benefit management and analytics-driven personal health care. We also provide services to the federal government in connection with the Federal Employee Program, or FEP. We also sold contact lenses, eyeglasses and other ocular products through our 1-800 CONTACTS, Inc., or 1-800 CONTACTS, business, which was divested on January 31, 2014.

We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee for California and as the Blue Cross and Blue Shield, or BCBS, licensee for Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as BCBS in 10 New York City metropolitan and surrounding counties, and as Blue Cross or BCBS in selected upstate counties only), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.) and Wisconsin. In a majority of these service areas we do business as Anthem Blue Cross, Anthem Blue Cross and Blue Shield, Blue Cross and Blue Shield of Georgia, and Empire Blue Cross Blue Shield, or Empire Blue Cross (in our New York service areas). We also conduct business through arrangements with other BCBS licensees in the states of South Carolina and Texas. We conduct business through our AMERIGROUP Corporation, or Amerigroup, subsidiary, in Florida, Georgia, Kansas, Louisiana, Maryland, Nevada, New Jersey, New Mexico, New York, Tennessee, Texas and Washington. We conduct business through our recently acquired Simply Healthcare Holdings, Inc., or Simply Healthcare, subsidiary in the state of Florida. We also serve customers throughout the country as HealthLink, UniCare (including a non-risk arrangement with the state of Massachusetts), and in certain Arizona, California, Nevada, New York and Virginia markets through our CareMore Health Group, Inc., or CareMore, subsidiary. We are licensed to conduct insurance operations in all 50 states through our subsidiaries.

2. Subsequent Event

On July 24, 2015, we and Cigna Corporation, or Cigna, announced that we entered into an Agreement and Plan of Merger, or Merger Agreement, dated as of July 23, 2015, by and among Anthem, Cigna and Anthem Merger Sub Corp., a Delaware corporation and a direct wholly-owned subsidiary of Anthem, pursuant to which Anthem will acquire all outstanding shares of Cigna, or the Acquisition. This Acquisition will further our goal of creating a premier health benefits company with critical diversification and scale to lead the transformation of health care delivery for consumers. Cigna is a global health services organization that delivers affordable and personalized products and services to customers through employer-based, government-sponsored and individual coverage arrangements. All products and services are provided exclusively by or through operating subsidiaries of Cigna, including Connecticut General Life Insurance Company, Cigna Health and Life Insurance Company, Life Insurance Company of North America and Cigna Life Insurance Company of New York. Such products and services include an integrated suite of health services, such as medical, dental, behavioral health, pharmacy, vision, supplemental benefits, and other related products including group life, accident and disability insurance. Cigna maintains sales capability in 30 countries and jurisdictions.

Under the terms of the Merger Agreement, Cigna’s stockholders will receive $103.40 in cash and 0.5152 shares of our common stock for each Cigna common share outstanding. The value of the transaction is estimated to be approximately $53,000.0 based on the closing price of our common stock on the New York Stock Exchange on July 23, 2015. The final purchase price will be determined based on our closing stock price on the date of closing of the Acquisition. The combined company will reflect a pro forma equity ownership comprised of approximately 67% Anthem stockholders and approximately 33% Cigna stockholders. We expect to finance the cash portion of the Acquisition through available cash on hand and the issuance of new debt. In addition, we entered into a bridge facility commitment letter which will provide up to $26,500.0 under a 364-day senior unsecured bridge term loan credit facility to finance the Acquisition in the event that we have not received any combination of (i) senior unsecured term loans, (ii) common or preferred equity or equity-linked securities and/or (iii) senior unsecured notes in a public offering or private placement in an aggregate principal amount of at least $26,500.0 prior to the consummation of the Acquisition. The Acquisition is expected to close in the second half of 2016 and is subject to certain state regulatory approvals, standard closing conditions, customary approvals required under the Hart-Scott-Rodino Antitrust Improvements Act and the approval of both our shareholders and Cigna’s stockholders.

3. Basis of Presentation and Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2014 Annual Report on Form 10-K, unless the information contained in those disclosures materially changed or is required by GAAP. Unless otherwise specified, all financial information presented in the accompanying consolidated financial statements and in the notes to consolidated financial statements relates only to our continuing operations, other than cash flows presented on the consolidated statements of cash flows. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the consolidated financial statements as of and for the three and six months ended June 30, 2015 and 2014 have been recorded. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2014 included in our 2014 Annual Report on Form 10-K.

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

Recently Adopted Accounting Guidance: In June 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity

Transactions, Repurchase Financings, and Disclosures, or ASU 2014-11. This amendment requires repurchase-to-maturity transactions to be accounted for as secured borrowings and eliminates previous guidance for repurchase financings. The amendment also expands the disclosure requirements related to certain transactions accounted for as secured borrowings and certain transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments related to the accounting of, and disclosure requirements for, certain transactions accounted for as a sale became effective as of January 1, 2015 and did not have an impact on our consolidated financial position, results of operations, cash flows or disclosures. The new disclosure requirements for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions accounted for as secured borrowings became effective as of April 1, 2015. See Note 5, "Investments - Securities Lending Programs," for additional disclosure information related to the adoption of ASU 2014-11.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, or ASU 2015-03. ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as an asset in the balance sheet. We adopted the provisions of ASU 2015-03 upon issuance and prior period amounts have been reclassified to conform to the current period presentation. As of December 31, 2014, $0.7 of debt issuance costs were reclassified in the consolidated balance sheet from other current assets to current portion of long-term debt and $107.6 was reclassified from other noncurrent assets to long-term debt, less current portion. The adoption of ASU 2015-03 did not impact our consolidated financial position, results of operations or cash flows.

Recent Accounting Guidance Not Yet Adopted: In May 2015, the FASB issued Accounting Standards Update No. 2015-09, Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts, or ASU 2015-09. This amendment requires new and expanded disclosures in interim and annual reporting periods related to the liability for unpaid claims and claim adjustment expenses for short-duration insurance contracts. ASU 2015-09 is effective for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual reporting periods beginning after December 15, 2016. The adoption of ASU 2015-03 will not impact our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, or ASU 2015-05. This amendment provides guidance to help entities determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. We are currently evaluating the effects the adoption of ASU 2015-05 will have upon our consolidated financial position, results of operations or cash flows.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, or ASU 2015-02. ASU 2015-02 amends current consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. All legal entities are subject to reevaluation under the revised consolidation model. The adoption of ASU 2015-02 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

There were no other new accounting pronouncements that were issued or became effective since the issuance of our 2014 Annual Report on Form 10-K that had, or are expected to have, a material impact on our consolidated financial position, results of operations or cash flows.

4. Business Acquisition and Divestiture

Simply Healthcare

On February 17, 2015, we completed our acquisition of Simply Healthcare, a leading managed care company for people enrolled in Medicaid and Medicare programs in the state of Florida. This acquisition aligns with our strategy for continued growth in our Government Business segment.

In accordance with FASB accounting guidance for business combinations, the preliminary consideration transferred was allocated to the fair value of Simply Healthcare's assets acquired and liabilities assumed, including identifiable intangible assets. The excess of the consideration transferred over the fair value of net assets acquired resulted in preliminary non-tax-

deductible goodwill of $459.7 at June 30, 2015, all of which was allocated to our Government Business segment. Preliminary goodwill recognized from the acquisition of Simply Healthcare primarily relates to the future economic benefits arising from the assets acquired and is consistent with our stated intentions to strengthen our position and expand operations in the government sector to service Medicaid and Medicare enrollees. Any additional payments or receipts of cash resulting from contractual purchase price adjustments or any subsequent adjustments made to the assets acquired and liabilities assumed during the measurement period will be recorded as an adjustment to goodwill. The preliminary fair value of the net assets acquired from Simply Healthcare includes $430.0 of other intangible assets, which primarily consist of indefinite-lived state licenses and finite-lived customer relationships with amortization periods ranging from 2 to 4 years.

The results of operations of Simply Healthcare are included in our consolidated financial statements within our Government Business segment for the period following February 17, 2015. The pro-forma effects of this acquisition for prior periods were not material to our consolidated results of operations.

1-800 CONTACTS

In December 2013, we entered into a definitive agreement to sell our 1-800 CONTACTS business to the private equity firm Thomas H. Lee Partners, L.P. Additionally, we entered into an asset purchase agreement with Luxottica Group to sell our glasses.com related assets (collectively, 1-800 CONTACTS). The sales were completed on January 31, 2014 and did not result in any material difference to the loss on disposal from discontinued operations recorded during the year ended December 31, 2013. The operating results for 1-800 CONTACTS for the one month ended January 31, 2014 are reported as discontinued operations in the accompanying consolidated statements of income. The operating results for 1-800 CONTACTS were previously reported in our Commercial and Specialty Business segment.

5. Investments

We evaluate our investment securities for other-than-temporary declines based on qualitative and quantitative factors. Other-than-temporary impairment losses recognized in income totaled $21.8 and $10.9 for the three months ended June 30, 2015 and 2014, respectively. Other-than-temporary impairment losses recognized in income totaled $35.8 and $21.7 for the six months ended June 30, 2015 and 2014, respectively. There were no individually significant other-than-temporary impairment losses on investments by issuer during the three and six months ended June 30, 2015 and 2014. We continue to review our investment portfolios under our impairment review policy. Given the inherent uncertainty of changes in market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairment losses on investments may be recorded in future periods.

A summary of current and long-term investments, available-for-sale, at June 30, 2015 and December 31, 2014 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Non-Credit Component of Other-Than-Temporary Impairments Recognized in AOCI
			Less than 12 Months	12 Months or Greater		
June 30, 2015						
Fixed maturity securities:						
United States Government securities	$323.9	$2.8	$(0.8)	$—	$325.9	$—
Government sponsored securities	87.7	0.8	(0.1)	(0.2)	88.2	—
States, municipalities and political subdivisions, tax-exempt	5,782.6	212.2	(24.8)	(5.2)	5,964.8	—
Corporate securities	9,380.6	119.8	(112.0)	(23.2)	9,365.2	(5.8)
Options embedded in convertible debt securities	0.8	—	—	—	0.8	—
Residential mortgage-backed securities	1,895.2	52.4	(7.1)	(7.5)	1,933.0	—
Commercial mortgage-backed securities	432.3	4.0	(1.1)	(0.2)	435.0	—
Other debt securities	732.1	7.2	(0.9)	(1.1)	737.3	—
Total fixed maturity securities	18,635.2	399.2	(146.8)	(37.4)	18,850.2	$(5.8)
Equity securities	1,264.0	495.9	(22.8)	—	1,737.1	
Total investments, available-for-sale	$19,899.2	$895.1	$(169.6)	$(37.4)	$20,587.3	
December 31, 2014						
Fixed maturity securities:						
United States Government securities	$315.7	$4.6	$(0.3)	$—	$320.0	$—
Government sponsored securities	94.6	0.8	—	(0.4)	95.0	—
States, municipalities and political subdivisions, tax-exempt	5,451.4	287.0	(1.8)	(3.0)	5,733.6	—
Corporate securities	8,335.9	162.9	(123.1)	(43.2)	8,332.5	(6.8)
Options embedded in convertible debt securities	98.7	—	—	—	98.7	—
Residential mortgage-backed securities	2,099.7	68.9	(1.0)	(8.6)	2,159.0	—
Commercial mortgage-backed securities	504.8	6.1	(0.6)	(0.4)	509.9	—
Other debt securities	720.3	6.1	(1.7)	(1.6)	723.1	—
Total fixed maturity securities	17,621.1	536.4	(128.5)	(57.2)	17,971.8	$(6.8)
Equity securities	1,330.7	618.5	(11.1)	—	1,938.1	
Total investments, available-for-sale	$18,951.8	$1,154.9	$(139.6)	$(57.2)	$19,909.9	

At June 30, 2015, we owned $2,368.0 of mortgage-backed securities and $655.4 of asset-backed securities out of a total available-for-sale investment portfolio of $20,587.3. These securities included sub-prime and Alt-A securities with fair values of $34.1 and $69.4, respectively. These sub-prime and Alt-A securities had accumulated net unrealized gains of $1.2 and $4.6, respectively. The average credit rating of the sub-prime and Alt-A securities was "CCC" and "CC", respectively.

The following tables summarize for available-for-sale fixed maturity securities and available-for-sale equity securities in an unrealized loss position at June 30, 2015 and December 31, 2014, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

	Less than 12 Months			12 Months or Greater		
(Securities are whole amounts)	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss
June 30, 2015						
Fixed maturity securities:						
United States Government securities	18	$69.1	$(0.8)	2	$0.9	$—
Government sponsored securities	12	19.0	(0.1)	10	20.7	(0.2)
States, municipalities and political subdivisions, tax-exempt	557	1,502.7	(24.8)	39	71.1	(5.2)
Corporate securities	1,895	4,702.7	(112.0)	277	397.0	(23.2)
Residential mortgage-backed securities	277	573.7	(7.1)	114	195.2	(7.5)
Commercial mortgage-backed securities	49	135.8	(1.1)	13	28.0	(0.2)
Other debt securities	56	183.7	(0.9)	21	56.8	(1.1)
Total fixed maturity securities	2,864	7,186.7	(146.8)	476	769.7	(37.4)
Equity securities	554	360.5	(22.8)	—	—	—
Total fixed maturity and equity securities	3,418	$7,547.2	$(169.6)	476	$769.7	$(37.4)
December 31, 2014						
Fixed maturity securities:						
United States Government securities	17	$145.3	$(0.3)	2	$0.9	$—
Government sponsored securities	2	0.3	—	16	29.3	(0.4)
States, municipalities and political subdivisions, tax-exempt	136	315.6	(1.8)	80	174.3	(3.0)
Corporate securities	1,802	3,213.3	(123.1)	314	514.6	(43.2)
Residential mortgage-backed securities	78	155.0	(1.0)	186	398.3	(8.6)
Commercial mortgage-backed securities	43	156.2	(0.6)	10	33.2	(0.4)
Other debt securities	79	270.6	(1.7)	21	65.0	(1.6)
Total fixed maturity securities	2,157	4,256.3	(128.5)	629	1,215.6	(57.2)
Equity securities	407	125.4	(11.1)	—	—	—
Total fixed maturity and equity securities	2,564	$4,381.7	$(139.6)	629	$1,215.6	$(57.2)

The amortized cost and fair value of available-for-sale fixed maturity securities at June 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$425.4	$428.2
Due after one year through five years	4,691.9	4,740.8
Due after five years through ten years	5,427.2	5,510.2
Due after ten years	5,763.2	5,803.0
Mortgage-backed securities	2,327.5	2,368.0
Total available-for-sale fixed maturity securities	$18,635.2	$18,850.2

Proceeds from fixed maturity securities, equity securities and other invested assets and the related gross realized gains and gross realized losses for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Proceeds	$3,234.8	$2,560.0	$6,160.7	$4,961.4
Gross realized gains	148.4	106.2	282.1	189.1
Gross realized losses	(56.1)	(40.4)	(143.3)	(81.6)

In the ordinary course of business, we may sell securities at a loss for a number of reasons, including, but not limited to: (i) changes in the investment environment; (ii) expectation that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; or (v) changes in expected cash flow.

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

Securities Lending Programs

We participate in securities lending programs whereby marketable securities in our investment portfolio are transferred to independent brokers or dealers in exchange for cash and securities collateral. The fair value of the collateral received at the time of the transactions amounted to $1,718.2 and $1,515.3 at June 30, 2015 and December 31, 2014, respectively. The value of the collateral represented 103% of the market value of the securities on loan at June 30, 2015 and December 31, 2014. Under FASB guidance related to accounting for transfers and servicing of financial assets and extinguishments of liabilities, we recognize the 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 collateral to the borrower, which is reported as "Securities lending payable." The securities on loan are reported in the applicable investment category on our 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.

The remaining contractual maturity of our securities lending agreements at June 30, 2015 is as follows:

	Overnight and Continuous	Less than 30 days	30-90 days	Greater Than 90 days	Total
Securities lending transactions					
United States Government securities	$ 100.3	$—	$14.2	$57.4	$171.9
Corporate securities	747.2	—	—	—	747.2
Equity securities	418.7	—	—	—	418.7
Other debt securities	380.4	—	—	—	380.4
Total	$ 1,646.6	$—	$14.2	$57.4	$1,718.2

The market value of loaned securities and that of the collateral pledged can fluctuate in non-synchronized fashions. To the extent the loaned securities' value appreciates faster or depreciates slower than the value of the collateral pledged, we are exposed to the risk of the shortfall. As a primary mitigating mechanism, the loaned securities and collateral pledged are marked to market on a daily basis and the shortfall, if any, is collected accordingly. Secondarily, the collateral level is set at 102% of the value of the loaned securities, which provides a cushion before any shortfall arises. The investment of the cash collateral is subject to market risk, which is managed by limiting the investments to higher quality and shorter duration instruments.

6. Fair Value

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

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

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

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

Fixed maturity securities, available-for-sale: Fair values of available-for-sale fixed maturity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value to facilitate fair value measurements and disclosures. United States Government securities represent Level I securities, while Level II securities primarily include corporate securities, securities from states, municipalities and political subdivisions and mortgage-backed securities. For securities not actively traded, the pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. We have controls in place to review the pricing services’ qualifications and procedures used to determine fair values. In addition, we periodically review the pricing services’ pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. We also have certain fixed maturity securities, primarily corporate debt securities, that are designated Level III securities. For these securities, the valuation methodologies may incorporate broker quotes or discounted cash flow analyses using assumptions for inputs such as expected cash flows, benchmark yields, 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. We also have certain equity securities, including private equity securities, for which the fair value is estimated based on each security’s current condition and future cash flow projections. Such securities are designated Level III. The fair values of these private equity securities are generally based on either broker quotes or discounted cash flow projections using assumptions for inputs such as the weighted-average cost of capital, long-term revenue growth rates and earnings before interest, taxes, depreciation and amortization, or EBITDA, and/or revenue multiples that are not observable in the markets.

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

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

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

Long-term receivable: Fair value is estimated based on discounted cash flow analysis using assumptions for inputs such as expected cash flow and discount rates that are not observable in the markets.
A summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014 is as follows:

	Level I	Level II	Level III	Total
June 30, 2015				
Assets:				
Cash equivalents	$686.4	$—	$—	$686.4
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	325.9	—	—	325.9
Government sponsored securities	—	88.2	—	88.2
States, municipalities and political subdivisions, tax-exempt	—	5,964.8	—	5,964.8
Corporate securities	212.1	8,960.7	192.4	9,365.2
Options embedded in convertible debt securities	—	0.8	—	0.8
Residential mortgage-backed securities	—	1,933.0	—	1,933.0
Commercial mortgage-backed securities	—	432.2	2.8	435.0
Other debt securities	81.5	649.5	6.3	737.3
Total fixed maturity securities	619.5	18,029.2	201.5	18,850.2
Equity securities	1,558.2	124.8	54.1	1,737.1
Other invested assets, current	23.4	—	—	23.4
Securities lending collateral	943.1	775.2	—	1,718.3
Derivatives excluding embedded options (reported with other assets)	—	218.0	—	218.0
Total assets	$3,830.6	$19,147.2	$255.6	$23,233.4
Liabilities:				
Derivatives excluding embedded options (reported with other liabilities)	$—	$(215.1)	$—	$(215.1)
Total liabilities	$—	$(215.1)	$—	$(215.1)
December 31, 2014				
Assets:				
Cash equivalents	$573.2	$—	$—	$573.2
Investments available-for-sale:				
Fixed maturity securities:				
United States Government securities	320.0	—	—	320.0
Government sponsored securities	—	95.0	—	95.0
States, municipalities and political subdivisions, tax-exempt	—	5,733.6	—	5,733.6
Corporate securities	7.1	8,180.8	144.6	8,332.5
Options embedded in convertible debt securities	—	98.7	—	98.7
Residential mortgage-backed securities	—	2,159.0	—	2,159.0
Commercial mortgage-backed securities	—	506.6	3.3	509.9
Other debt securities	89.2	627.3	6.6	723.1
Total fixed maturity securities	416.3	17,401.0	154.5	17,971.8
Equity securities	1,696.9	192.9	48.3	1,938.1
Other invested assets, current	20.2	—	—	20.2
Securities lending collateral	808.3	706.9	—	1,515.2
Derivatives excluding embedded options (reported with other assets)	—	224.8	—	224.8
Total assets	$3,514.9	$18,525.6	$202.8	$22,243.3
Liabilities:				
	$—	$(260.4)	$—	$(260.4)

Derivatives excluding embedded options (reported with other liabilities)				
Total liabilities	$—	$(260.4)	$—	$(260.4)

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the three months ended June 30, 2015 and 2014 is as follows:

	Corporate Securities	Commercial Mortgage-backed Securities	Other Debt Securities	Equity Securities	Long-term Receivable	Total
Three months ended June 30, 2015						
Beginning balance at April 1, 2015	$165.5	$3.2	$2.6	$51.8	$—	$223.1
Total gains (losses):						
Recognized in net income	(0.8)	—	—	(0.4)	—	(1.2)
Recognized in accumulated other comprehensive income	1.4	—	—	(0.4)	—	1.0
Purchases	57.2	—	3.7	4.3	—	65.2
Sales	(4.1)	—	—	(1.2)	—	(5.3)
Settlements	(11.3)	(0.4)	—	—	—	(11.7)
Transfers into Level III	4.2	—	—	—	—	4.2
Transfers out of Level III	(19.7)	—	—	—	—	(19.7)
Ending balance at June 30, 2015	$192.4	$2.8	$6.3	$54.1	$—	$255.6
Change in unrealized losses included in net income related to assets still held for the three months ended June 30, 2015	$—	$—	$—	$(0.2)	$—	$(0.2)
Three months ended June 30, 2014						
Beginning balance at April 1, 2014	$114.0	$3.1	$14.8	$43.2	$21.6	$196.7
Total gains (losses):						
Recognized in net income	(3.0)	—	—	(0.4)	10.6	7.2
Recognized in accumulated other comprehensive income	9.6	—	0.1	7.1	—	16.8
Purchases	11.6	3.6	3.0	1.7	—	19.9
Sales	(4.5)	—	—	(8.5)	—	(13.0)
Settlements	(1.5)	—	(0.1)	—	—	(1.6)
Transfers into Level III	24.2	—	—	—	—	24.2
Transfers out of Level III	—	(3.1)	—	—	—	(3.1)
Ending balance at June 30, 2014	$150.4	$3.6	$17.8	$43.1	$32.2	$247.1
Change in unrealized losses included in net income related to assets still held for the three months ended June 30, 2014	$(3.6)	$—	$—	$(0.4)	$—	$(4.0)

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs for the six months ended June 30, 2015 and 2014 is as follows:

	Corporate Securities	Commercial Mortgage-backed Securities	Other Debt Securities	Equity Securities	Long-term Receivable	Total
Six Months Ended June 30, 2015						
Beginning balance at January 1, 2015	$144.6	$3.3	$6.6	$48.3	$—	$202.8
Total gains (losses):						
Recognized in net income	(1.0)	—	0.2	(1.2)	—	(2.0)
Recognized in accumulated other comprehensive income	3.0	—	(0.2)	0.9	—	3.7
Purchases	89.6	—	3.7	11.8	—	105.1
Sales	(4.1)	—	(0.9)	(5.7)	—	(10.7)
Settlements	(24.9)	(0.5)	(0.1)	—	—	(25.5)
Transfers into Level III	4.9	—	—	—	—	4.9
Transfers out of Level III	(19.7)	—	(3.0)	—	—	(22.7)
Ending balance at June 30, 2015	$192.4	$2.8	$6.3	$54.1	$—	$255.6
Change in unrealized losses included in net income related to assets still held for the six months ended June 30, 2015	$(0.6)	$—	$—	$(1.0)	$—	$(1.6)
Six Months Ended June 30, 2014						
Beginning balance at January 1, 2014	$115.2	$6.5	$14.8	$41.4	$—	$177.9
Total gains (losses):						
Recognized in net income	(6.3)	—	—	(0.7)	32.2	25.2
Recognized in accumulated other comprehensive income	12.7	—	0.3	1.3	—	14.3
Purchases	20.9	3.6	3.0	10.7	—	38.2
Sales	(6.2)	—	—	(9.6)	—	(15.8)
Settlements	(3.6)	(3.4)	(0.3)	—	—	(7.3)
Transfers into Level III	24.2	—	—	—	—	24.2
Transfers out of Level III	(6.5)	(3.1)	—	—	—	(9.6)
Ending balance at June 30, 2014	$150.4	$3.6	$17.8	$43.1	$32.2	$247.1
Change in unrealized losses included in net income related to assets still held for the six months ended June 30, 2014	$(7.6)	$—	$—	$(0.7)	$—	$(8.3)

Transfers between levels, if any, are recorded as of the beginning of the reporting period. There were no material transfers between levels during the three and six months ended June 30, 2015 or 2014.

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. As disclosed in Note 4, “Business Acquisition and Divestiture”, we completed our acquisition of Simply Healthcare on February 17, 2015. The values of net assets acquired in our acquisition of Simply Healthcare and resulting goodwill and other intangible assets were recorded at fair value primarily using Level III inputs. The majority of Simply Healthcare's assets acquired and liabilities assumed were recorded at their carrying values as of the respective date of acquisition, as their carrying values approximated their fair values due to their short-term nature. The fair values of goodwill and other intangible assets acquired in our acquisition of Simply Healthcare were internally estimated based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets could be expected to generate in the future. We developed internal estimates for the expected cash flows and discount rate in the present value calculation. Other than the

assets acquired and liabilities assumed in our acquisition of Simply Healthcare described above, there were no other assets or liabilities measured at fair value on a nonrecurring basis during the three and six months ended June 30, 2015 or 2014.

Our valuation policy is determined by members of our treasury and accounting departments. Whenever possible, our policy is to obtain quoted market prices in active markets to estimate fair values for recognition and disclosure purposes. Where quoted market prices in active markets are not available, fair values are estimated using discounted cash flow analyses, broker quotes or other valuation techniques. These techniques are significantly affected by our assumptions, including discount rates and estimates of future cash flows. Potential taxes and other transaction costs are not considered in estimating fair values. Our valuation policy is generally to obtain only one quoted price for each security from third party pricing services, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. When broker quotes are used, we generally obtain only one broker quote per security. As we are responsible for the determination of fair value, we perform monthly analysis on the prices received from the pricing services to determine whether the prices are reasonable estimates of fair value. This analysis is performed by our internal treasury personnel who are familiar with our investment portfolios, the pricing services engaged and the valuation techniques and inputs used. Our analysis includes a review of month-to-month price fluctuations. If unusual fluctuations are noted in this review, we may obtain additional information from other pricing services to validate the quoted price. There were no adjustments to quoted market prices obtained from the pricing services during the three and six months ended June 30, 2015 or 2014.

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

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

The carrying amounts reported in the consolidated balance sheets for cash, accrued investment income, premium and self-funded receivables, other receivables, unearned income, accounts payable and accrued expenses, income taxes receivable/payable, security trades pending payable, securities lending payable and certain other current liabilities approximate fair value because of the short term nature of these items. These assets and liabilities are not listed in the table below.

The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument that is recorded at its carrying value on the consolidated balance sheets:

Other invested assets, long-term: Other invested assets, long-term include primarily our investments in limited partnerships, joint ventures and other non-controlled corporations, as well as the cash surrender value of corporate-owned life insurance policies. Investments in limited partnerships, joint ventures and other non-controlled corporations are carried at our share in the entities' undistributed earnings, which approximates fair value. The carrying value of corporate-owned life insurance policies represents the cash surrender value as reported by the respective insurer, which approximates fair value.

Short-term borrowings: The fair value of our short-term borrowings is based on quoted market prices for the same or similar debt, or, if no quoted market prices were available, on the current market interest 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 – senior unsecured notes, remarketable subordinated notes and surplus notes: The fair values of our notes are based on quoted market prices in active markets for the same or similar debt, or, if no quoted market prices are available, on the current market observable rates estimated to be available to us for debt of similar terms and remaining maturities.

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

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A summary of the estimated fair values by level of each class of financial instrument that is recorded at its carrying value on our consolidated balance sheets at June 30, 2015 and December 31, 2014 are as follows:

	Carrying Value	Estimated Fair Value Level I	Level II	Level III	Total
June 30, 2015					
Assets:					
Other invested assets, long-term	$1,803.3	$—	$—	$1,803.3	$1,803.3
Liabilities:					
Debt:					
Short-term borrowings	540.0	—	540.0	—	540.0
Commercial paper	697.4	—	697.4	—	697.4
Notes	14,926.3	—	15,148.6	—	15,148.6
Convertible debentures	469.6	—	1,608.4	—	1,608.4
December 31, 2014					
Assets:					
Other invested assets, long-term	$1,695.9	$—	$—	$1,695.9	$1,695.9
Liabilities:					
Debt:					
Short-term borrowings	400.0	—	400.0	—	400.0
Notes	13,687.5	—	14,794.8	—	14,794.8
Convertible debentures	956.4	—	2,581.9	—	2,581.9

7. Income Taxes

During the three months ended June 30, 2015 and 2014, we recognized income tax expense of $698.9 and $532.6, respectively, which represents effective tax rates of 44.9% and 42.1%, respectively. The increase in income tax expense was primarily due to increased income before income taxes and the increase to the non-tax deductible Health Insurance Provider Fee, or HIP Fee. For the three months ended June 30, 2015 and 2014, the HIP Fee resulted in additional income tax expense of $114.2 and $80.5, respectively. The increase in the effective income tax rate was primarily due to the increase in the non-tax deductible HIP Fee.

During the six months ended June 30, 2015 and 2014, we recognized income tax expense of $1,402.8 and $971.3, respectively, which represents effective tax rates of 44.9% and 40.6%, respectively. The increase in income tax expense was primarily due to increased income before income taxes and the increase to the non-tax deductible HIP Fee. For the six months ended June 30, 2015 and 2014, the HIP Fee resulted in additional income tax expense of $227.5 and $161.0, respectively. The increase was further impacted due to favorable 2014 discrete tax adjustments related to state income tax audits, including refund claims filed, and adjustments to state deferred tax liabilities in 2014 resulting from a decrease in the Indiana statutory income tax rate. The increase in the effective tax rate was primarily due to the increase to the non-tax deductible HIP Fee, the favorable 2014 discrete tax adjustments, and adjustments to the state deferred tax liabilities in 2014, discussed above.

8. Retirement Benefits

The components of net periodic (credit) benefit cost included in the consolidated statements of income for the three months ended June 30, 2015 and 2014 are as follows:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Service cost	$3.3	$3.2	$0.6	$0.8
Interest cost	17.1	18.5	5.8	6.5
Expected return on assets	(35.9)	(34.3)	(5.9)	(5.9)
Recognized actuarial loss	6.5	5.2	3.8	2.4
Settlement loss	1.7	1.4	—	—
Amortization of prior service credit	(0.2)	(0.2)	(3.6)	(3.6)
Net periodic (credit) benefit cost	$(7.5)	$(6.2)	$0.7	$0.2

The components of net periodic (credit) benefit cost included in the consolidated statements of income for the six months ended June 30, 2015 and 2014 are as follows:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Service cost	$6.6	$6.5	$1.1	$1.6
Interest cost	34.1	37.0	11.7	13.1
Expected return on assets	(71.6)	(68.7)	(11.8)	(11.7)
Recognized actuarial loss	12.9	10.5	7.6	4.7
Settlement loss	3.0	2.5	—	—
Amortization of prior service credit	(0.4)	(0.4)	(7.2)	(7.2)
Net periodic (credit) benefit cost	$(15.4)	$(12.6)	$1.4	$0.5

For the year ending December 31, 2015, no material contributions are expected to be necessary to meet the Employee Retirement Income Security Act, or ERISA, required funding levels; however, we may elect to make discretionary contributions up to the maximum amount deductible for income tax purposes. No contributions were made to our retirement benefit plans during the six months ended June 30, 2015 or 2014.

9. Debt

The carrying value of long-term debt at June 30, 2015 and December 31, 2014 consists of the following:

	June 30, 2015	December 31, 2014
Senior unsecured notes:		
1.250%, due 2015	$624.9	$ 624.3
2.375%, due 2017	400.0	398.9
5.875%, due 2017	527.2	526.7
1.875%, due 2018	621.6	616.4
2.300%, due 2018	645.1	644.3
2.250%, due 2019	843.0	842.1
7.000%, due 2019	438.7	438.5
4.350%, due 2020	698.8	695.3
3.700%, due 2021	695.9	695.6
3.125%, due 2022	842.2	841.6
3.300%, due 2023	991.8	991.2
3.500%, due 2024	790.4	789.8
5.950%, due 2034	444.4	444.4
5.850%, due 2036	767.8	767.7
6.375%, due 2037	639.5	639.3
5.800%, due 2040	193.7	206.4
4.625%, due 2042	885.6	885.4
4.650%, due 2043	985.2	985.0
4.650%, due 2044	790.3	790.1
5.100%, due 2044	593.2	593.1
4.850%, due 2054	246.6	246.5
Remarketable subordinated notes:		
1.900%, due 2028	1,235.5	—
Surplus notes:		
9.000%, due 2027	24.9	24.9
Senior convertible debentures:		
2.750%, due 2042	469.6	956.4
Variable rate debt:		
Commercial paper program	697.4	—
Total long-term debt	16,093.3	14,643.9
Current portion of long-term debt	(624.9)	(624.3)
Long-term debt, less current portion	$15,468.4	$ 14,019.6

We generally issue senior unsecured notes for long-term borrowing purposes. At June 30, 2015, we had $13,665.9 outstanding under these notes. During the three months ended March 31, 2015, we repurchased $13.0 of outstanding principal balance of certain senior unsecured notes, plus applicable premium for early redemption plus accrued and unpaid interest, for cash totaling $16.2. We recognized a loss on extinguishment of debt of $3.4. We did not repurchase any senior unsecured noted during the three months ended June 30, 2015.

On May 12, 2015, we issued 25.0 Equity Units, pursuant to an underwriting agreement dated May 6, 2015, in an aggregate principal amount of $1,250.0. Each Equity Unit has a stated amount of $50 (whole dollars) and consists of a purchase contract obligating the holder to purchase a certain number of shares of our common stock on May 1, 2018, subject to earlier termination or settlement, for a price in cash of $50 (whole dollars); and a 5% undivided beneficial ownership interest in $1,000 (whole dollars) principal amount of our 1.900% remarketable subordinated notes, or RSNs, due 2028. We received $1,228.8 in cash proceeds from issuance of the Equity Units, net of underwriting discounts and commissions and offering expenses payable by us, and recorded $1,250.0 in long-term debt. The proceeds will be used for general corporate purposes, including, but not limited to, the repurchase of a portion of our outstanding senior convertible debentures due 2042. On May 1, 2018, if the applicable market value of our common stock is equal to or greater than $207.805 per share, the settlement rate will be 0.2406 shares of our common stock. If the applicable market value of our common stock is less than $207.805 per share but greater than $143.865 per share, the settlement rate will be a number of shares of our common stock equal to $50 (whole dollars) divided by the applicable market value of our common stock. If the applicable market value of common stock is less than or equal to $143.865, the settlement rate will be 0.3475 shares of our common stock. Holders of the Equity Units may elect early settlement at a minimum settlement rate of 0.2406 shares of our common stock for each purchase contract being settled. The RSNs are pledged as collateral to secure the purchase of common stock under the related stock purchase contracts. Quarterly interest payments on the RSNs will commence on August 1, 2015, subject to any termination event or optional re-marketing. The RSNs are scheduled to be remarketed during the five business day period ending on April 26, 2018 and may be remarketed earlier, at our election, during the period from January 30, 2018 through April 12, 2018. Following the re-marketing, the interest rate on the RSNs will be set to current market rates and interest will be payable semi-annually. At June 30, 2015, the present value of the stock purchase contract liability was $120.9 and is included in other current liabilities and other noncurrent liabilities with a corresponding offset to additional paid-in capital in our consolidated balance sheet. Contract adjustment payments will commence on August 1, 2015 at a rate of 3.350% per annum on the stated amount per Equity Unit. Subject to certain specified terms and conditions, we have the right to defer payments on all or part the contract adjustment payments but not beyond the contract settlement date and we have the right to defer payment of interest on the RSNs but not beyond the purchase contract settlement date or maturity date.

We have an unsecured surplus note with an outstanding principal balance of $24.9 at June 30, 2015.

We have a senior revolving credit facility, or the Facility, with certain lenders for general corporate purposes. The Facility, as amended, provides credit up to $2,000.0, and matures on September 29, 2016. There were no amounts outstanding under this Facility as of June 30, 2015 or at any time during the three and six months then ended.

We have an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. At June 30, 2015, we had $697.4 outstanding under this program.

We have outstanding senior convertible debentures due 2042, or the Debentures, which are governed by an indenture between us and The Bank of New York Mellon Trust Company, N.A., as trustee. We have accounted for the Debentures in accordance with the cash conversion guidance in FASB guidance for debt with conversion and other options. As a result, the value of the embedded conversion option has been bifurcated from its debt host and recorded as a component of additional paid-in capital (net of deferred taxes and equity issuance costs) in our consolidated balance sheets. During the three months ended June 30, 2015, we repurchased $700.5 aggregate principal balance of the Debentures. In addition, $66.5 aggregate principal balance was surrendered for conversion by certain holders in accordance with the terms and provisions of the indenture governing the Debentures. We elected to settle the excess of the principal amount of the repurchases and the conversions with cash for total payments of $1,646.3. We recognized a gain on extinguishment of debt of $2.9 based on the fair values of the debt on the repurchase and conversion settlement dates. The following table summarizes at June 30, 2015 the related balances, conversion rate and conversion price of the Debentures:

Outstanding principal amount	$733.0
Unamortized debt discount	$254.7
Net debt carrying amount	$469.6
Equity component carrying amount	$265.7
Conversion rate (shares of common stock per $1,000 of principal amount)	13.4231
Effective conversion price (per $1,000 of principal amount)	$74.4977

We have $540.0 in outstanding short-term borrowings from various Federal Home Loan Banks at June 30, 2015 with fixed interest rates of 0.194%.

10. Commitments and Contingencies

Litigation

In the ordinary course of business, we are defendants in, or parties to, a number of pending or threatened legal actions or proceedings. To the extent a plaintiff or plaintiffs in the following cases have specified in their complaint or in other court filings the amount of damages being sought, we have noted those alleged damages in the descriptions below. With respect to the cases described below, we contest liability and/or the amount of damages in each matter and believe we have meritorious defenses.

We are defending a certified class action filed as a result of the 2001 demutualization of Anthem Insurance Companies, Inc., or Anthem Insurance. The lawsuit names Anthem Insurance as well as Anthem, Inc. and is captioned Ronald Gold, et al. v. Anthem, Inc. et al. Anthem Insurance's 2001 Plan of Conversion, or the Plan, provided for the conversion of Anthem Insurance from a mutual insurance company into a stock insurance company pursuant to Indiana law. Under the Plan, Anthem Insurance distributed the fair value of the company at the time of conversion to its Eligible Statutory Members, or ESMs, in the form of cash or Anthem common stock in exchange for their membership interests in the mutual company. Plaintiffs in Gold allege that Anthem Insurance distributed value to the wrong ESMs. Cross motions for summary judgment were granted in part and denied in part on July 26, 2006 with regard to the issue of sovereign immunity asserted by co-defendant, the state of Connecticut, or the State. The trial court also denied our motion for summary judgment as to plaintiffs' claims on January 10, 2005. The State appealed the denial of its motion to the Connecticut Supreme Court. We filed a cross-appeal on the sovereign immunity issue. On May 11, 2010, the Supreme Court reversed the judgment of the trial court denying the State's motion to dismiss the plaintiff's claims under sovereign immunity and dismissed our cross-appeal. The case was remanded to the trial court for further proceedings. Plaintiffs' motion for class certification was granted on December 15, 2011. We and the plaintiffs filed renewed cross-motions for summary judgment on January 24, 2013. On August 19, 2013, the trial court denied plaintiffs' motion for summary judgment. The trial court deferred a final ruling on our motion for summary judgment. On March 6, 2014, the trial court denied our motion for summary judgment finding that an issue of material fact existed. A trial on liability commenced on October 14, 2014 and concluded on October 16, 2014. On June 12, 2015, the court entered judgment for Anthem Insurance on all issues, finding that (1) Anthem Insurance correctly determined the State to be an ESM, not Plaintiffs; (2) Anthem Insurance acted in good faith in making this determination, while Plaintiffs failed to present sufficient evidence to override a presumption that Anthem Insurance's ESM determination

was correct; and (3) Plaintiffs failed to prove the breach of any contractual obligation. On July 1, 2015, Plaintiffs filed a notice of appeal from the judgment entered for Anthem Insurance.

We are currently a defendant in eleven putative class actions relating to out-of-network, or OON, reimbursement that were consolidated into a single multi-district lawsuit called In re WellPoint, Inc. (n/k/a Anthem, Inc.) Out-of-Network "UCR" Rates Litigation that is pending in the United States District Court for the Central District of California. The lawsuits were filed in 2009. The plaintiffs include current and former members on behalf of a putative class of members who received OON services for which the defendants paid less than billed charges, the American Medical Association, four state medical associations, OON physicians, OON non-physician providers, the American Podiatric Medical Association, California Chiropractic Association and the California Psychological Association on behalf of putative classes of OON physicians and all OON non-physician health care providers. The plaintiffs have filed several amended complaints alleging that the defendants violated the Racketeer Influenced and Corrupt Organizations Act, or RICO, the Sherman Antitrust Act, ERISA, federal regulations, and state law by using an OON reimbursement database called Ingenix and by using non-Ingenix OON reimbursement methodologies. We have filed motions to dismiss in response to each of those amended complaints. Our motions to dismiss have been granted in part and denied in part by the court. The most recent pleading filed by the plaintiffs is a Fourth Amended Complaint to which we filed a motion to dismiss most, but not all, of the claims. In July 2013 the court issued an order granting in part and denying in part our motion. The court held that the state and federal anti-trust claims along with the RICO claims should be dismissed in their entirety with prejudice. The court further found that the ERISA claims, to the extent they involved non-Ingenix methodologies, along with those that involved our alleged non-disclosures should be dismissed with prejudice. The court also dismissed most of the plaintiffs' state law claims with prejudice. The only claims that remain after the court's decision are an ERISA benefits claim relating to claims priced based on Ingenix, a breach of contract claim on behalf of one subscriber plaintiff, a breach of implied covenant claim on behalf of one subscriber plaintiff, and one subscriber plaintiff's claim under the California Unfair Competition Law. The plaintiffs filed a motion for reconsideration of the motion to dismiss order, which the court granted in part and denied in part. The court ruled that the plaintiffs adequately allege that one Georgia provider plaintiff is deemed to have exhausted administrative remedies regarding non-Ingenix methodologies based on the facts alleged regarding that plaintiff so those claims are back in the case. Fact discovery is complete. The plaintiffs filed a motion for class certification in November 2013 seeking the following classes: (1) a subscriber ERISA class as to OON claims processed using the Ingenix database as the pricing methodology; (2) a physician provider class as to OON claims processed using Ingenix; (3) a non-physician provider class as to OON claims processed using Ingenix; (4) a provider ERISA class as to OON claims processed using non-Ingenix pricing methodologies; (5) a California subscriber breach of contract/unfair competition class; and (6) a subscriber breach of implied covenant class for all Anthem states except California. Following expert discovery and briefing, oral argument was held on the motion. In late 2014, the court denied the plaintiffs' motion for class certification in its entirety. The California subscriber plaintiffs filed a motion for leave to file a renewed motion for class certification with more narrowly defined proposed classes, which the court denied. The parties have a January 2016 deadline for filing motions for summary judgment. Earlier in the case, in 2009, we filed a motion in the United States District Court for the Southern District of Florida, or the Florida Court, to enjoin the claims brought by the physician plaintiffs and certain medical association plaintiffs based on prior litigation releases, which was granted in 2011. The Florida Court ordered those plaintiffs to dismiss their claims that are barred by the release. The plaintiffs then filed a petition for declaratory judgment asking the court to find that these claims are not barred by the releases from the prior litigation. We filed a motion to dismiss the declaratory judgment action, which was granted. The plaintiffs appealed the dismissal of the declaratory judgment to the United States Court of Appeals for the Eleventh Circuit, but the dismissal was upheld. The enjoined physicians and some of the medical associations did not dismiss their barred claims. The Florida Court found those enjoined plaintiffs in contempt and sanctioned them in July 2012. Those plaintiffs appealed the Florida Court's sanctions order to the United States Court of Appeals for the Eleventh Circuit. The Eleventh Circuit upheld the Florida court's enforcement of the injunction as it relates to the plaintiffs' RICO and antitrust claims, but vacated it as it relates to certain ERISA claims. The plaintiffs filed a petition for rehearing en banc as to the antitrust claims only, which was denied. The plaintiffs then filed a petition for writ of certiorari with the U.S. Supreme Court. The American Medical Association filed an amicus brief in support of the petition. The U.S. Supreme Court denied the petition on February 23, 2015. We intend to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

We are a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA as well as Blue Cross and/or Blue Shield licensees across the country. The cases were consolidated into a single multi-district lawsuit called In re Blue Cross Blue Shield Antitrust Litigation that is pending in the United States District Court for the Northern District of Alabama. Generally, the suits allege that the BCBSA and the Blue plans have engaged in a conspiracy to horizontally allocate geographic markets through license agreements, best efforts rules (which limit the percentage of non-Blue revenue of each plan), restrictions on acquisitions and other arrangements in violation of the Sherman Antitrust Act and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers. Subscriber and provider plaintiffs each filed consolidated amended complaints on July 1, 2013. The consolidated amended subscriber complaint was also brought on behalf of putative state classes of health plan subscribers in Alabama, Arkansas, California, Florida, Hawaii, Illinois, Louisiana, Michigan, Mississippi, Missouri, New Hampshire, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, and Texas. Defendants filed motions to dismiss in September 2013, which were argued in April 2014. In June 2014, the court denied the majority of the motions, ruling that plaintiffs had alleged sufficient facts at this stage of the litigation to avoid dismissal of their claims. Following the subsequent filing of amended complaints by each of the subscriber and provider plaintiffs, we filed our answer and asserted our affirmative defenses in December 2014. Discovery has commenced. We intend to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

Where available information indicates that it is probable that a loss has been incurred as of the date of the consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income. In many proceedings, however, it is difficult to determine whether any loss is probable or reasonably possible. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously identified loss contingency, it is not always possible to reasonably estimate the amount of the possible loss or range of loss.

With respect to many of the proceedings to which we are a party, we cannot provide an estimate of the possible losses, or the range of possible losses in excess of the amount, if any, accrued, for various reasons, including but not limited to some or all of the following: (i) there are novel or unsettled legal issues presented, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or decertified or the ultimate size and scope of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) in many cases, the plaintiffs have not specified damages in their complaint or in court filings. For those legal proceedings where a loss is probable, or reasonably possible, and for which it is possible to reasonably estimate the amount of the possible loss or range of losses, we currently believe that the range of possible losses, in excess of established reserves, for all of those proceedings is from $0.0 to approximately $250.0 at June 30, 2015. This estimated aggregate range of reasonably possible losses is based upon currently available information taking into account our best estimate of such losses for which such an estimate can be made.

Cyber Attack Incident

In February 2015, we reported that we were the target of a sophisticated external cyber attack. The attackers gained unauthorized access to certain of our information technology systems and obtained personal information related to many individuals and employees, such as names, birthdays, health care identification/social security numbers, street addresses, email addresses, phone numbers and employment information, including income data. To date, there is no evidence that credit card or medical information, such as claims, test results or diagnostic codes, were targeted, accessed or obtained, although no assurance can be given that we will not identify additional information that was accessed or obtained.

Currently, we are in the process of addressing the cyber attack and supporting federal law enforcement efforts to identify the responsible parties. Upon discovery of the cyber attack, we took immediate action to remediate the security vulnerability and retained a cybersecurity firm to evaluate our systems and identify solutions based on the evolving landscape. We will provide credit monitoring and identity protection services to those who have been affected by this cyber attack. While the cyber attack did not have an impact on our business, cash flows, financial condition and results of operations for the year ended December 31, 2014, we have incurred expenses subsequent to the cyber attack to investigate and remediate this matter and expect to continue to incur expenses of this nature in the foreseeable future. Although we are unable to quantify the ultimate magnitude of such expenses and any other impact to our business from this incident at this time, they may be significant. We will recognize these expenses in the periods in which they are incurred.

Actions have been filed in various federal and state courts and other claims have been or may be asserted against us on behalf of current or former members, current or former employees, other individuals, shareholders or others seeking damages or other related relief, allegedly arising out of the cyber attack. State and federal agencies, including state insurance regulators, state attorneys general, the Health and Human Services Office of Civil Rights and the Federal Bureau of Investigations, are investigating events related to the cyber attack, including how it occurred, its consequences and our responses. Although we are cooperating in these investigations, we may be subject to fines or other obligations, which may have an adverse effect on how we operate our business and our results of operations. With respect to the civil actions, a motion to transfer was filed with the Judicial Panel on Multidistrict Litigation on February 10, 2015 and was subsequently heard by the Panel on May 28, 2015. On June 8, 2015, the Panel entered its order transferring the consolidated matter to the U.S. District Court for the Northern District of California.

We have contingency plans and insurance coverage for certain expenses and potential liabilities of this nature, however, the coverage may not be sufficient to cover all claims and liabilities. While a loss from these matters is reasonably possible, we cannot reasonably estimate a range of possible losses because our investigation into the matter is ongoing, the proceedings remain in the early stages, alleged damages have not been specified, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual and legal issues to be resolved.

Other Contingencies

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

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

The National Organization of Life & Health Insurance Guaranty Associations, or NOLHGA, is a voluntary organization consisting of the state life and health insurance guaranty associations located throughout the U.S. Such associations, working together with NOLHGA, provide a safety net for their state’s policyholders, ensuring that they continue to receive coverage, subject to state maximum limits, even if their insurer is declared insolvent. We are aware that the Pennsylvania Insurance Commissioner, or Insurance Commissioner, has placed Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company, or collectively Penn Treaty, in rehabilitation, an intermediate action before insolvency. The state court denied the Insurance Commissioner’s petition for the liquidation of Penn Treaty and ordered the Insurance Commissioner to file an updated plan of rehabilitation. The Insurance Commissioner filed an initial plan of rehabilitation on April 30, 2013, an amended plan on August 8, 2014 and a second amended plan on October 8, 2014. The state court commenced a hearing in connection with the second amended plan on July 13, 2015, which hearing has been adjourned pending further discovery. Also, on July 20, 2015, the Pennsylvania Supreme Court affirmed the state court's decision to deny the petition for liquidation. In the event rehabilitation of Penn Treaty is unsuccessful and Penn Treaty is declared insolvent and placed in liquidation, we and other insurers may be required to pay a portion of their policyholder claims through state guaranty association assessments in future periods. Given the uncertainty around whether Penn Treaty will ultimately be declared insolvent and, if so, the amount of the insolvency, the amount and timing of any associated future guaranty fund assessments, and the availability and amount of any potential premium tax and other offsets, we currently cannot estimate our net exposure, if any, to this potential insolvency. We will continue to monitor the situation and may record a liability and expense in future reporting periods, which could be material to our cash flows and results of operations.

Contractual Obligations and Commitments

We are a party to an agreement with Express Scripts, Inc., or Express Scripts, whereby Express Scripts is the exclusive provider of pharmacy benefit management, or PBM, services to our plans, excluding one Amerigroup subsidiary and certain self-insured members, which have exclusive agreements with different PBM service providers. It is expected that the Amerigroup subsidiary will complete its transition to the Express Scripts agreement during

2015. The initial term of this agreement expires on December 31, 2019. Under this agreement, Express Scripts is the exclusive provider of certain specified PBM services, such as pharmacy network management, home delivery, pharmacy customer service, claims processing, rebate management, drug utilization and specialty pharmaceutical management services. Accordingly, the agreement contains certain financial and operational requirements obligating both Express Scripts and us. Express Scripts' primary obligations relate to the performance of such services and meeting certain pricing guarantees and performance standards. Our primary obligations relate to oversight, provision of data, payment for services and certain minimum volume requirements. The failure by either party to meet the respective requirements could potentially serve as a basis for financial penalties or early termination of the contract. We believe we have appropriately recognized all rights and obligations under this contract at June 30, 2015.

During December 2014, we entered into a new agreement with International Business Machines Corporation to provide information technology infrastructure services. This new agreement supersedes certain prior agreements and also includes provisions for additional services. Our remaining commitment under this agreement at June 30, 2015 was $430.0 through March 31, 2020. We have the ability to terminate this agreement upon the occurrence of certain events, subject to early termination fees.

On March 31, 2009, we entered into an agreement with Affiliated Computer Services, Inc. to provide certain print and mailroom services that were previously performed in-house. Our remaining commitment under this agreement at June 30, 2015 was $47.1 through March 31, 2016. 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 states in which we conduct business. As of June 30, 2015, there were no significant concentrations of financial instruments in a single investee, industry or geographic location.

11. Capital Stock

Use of Capital – Dividends and Stock Repurchase Program

We regularly review the appropriate use of capital, including acquisitions, common stock and debt security repurchases and dividends to shareholders. The declaration and payment of any dividends or repurchases of our common stock or debt is 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.

A summary of the cash dividend activity for the six months ended June 30, 2015 and 2014 is as follows:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
Six Months Ended June 30, 2015				
January 27, 2015	March 10, 2015	March 25, 2015	$0.6250	