HUMANA INC
Form 10-Q
November 06, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission file number 1-5975

HUMANA INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-0647538**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

500 West Main Street

Louisville, Kentucky 40202

(Address of principal executive offices, including zip code)

(502) 580-1000

(Registrant s telephone number, including area code)

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 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 checkmark 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 ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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.

Class of Common Stock	Outstanding at September 30, 2013
$0.16 2/3 par value	155,913,299 shares

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Humana Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2013	December 31, 2012
	(in millions, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,255	$ 1,306
Investment securities	8,262	8,001
Receivables, less allowance for doubtful accounts of $109 in 2013 and $94 in 2012	824	733
Other current assets	2,232	1,670
Total current assets	12,573	11,710
Property and equipment, net	1,180	1,098
Long-term investment securities	1,737	1,846
Goodwill	3,716	3,640
Other long-term assets	1,697	1,685
Total assets	$ 20,903	$ 19,979
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Benefits payable	$ 4,070	$ 3,779
Trade accounts payable and accrued expenses	2,010	2,042
Book overdraft	273	324
Unearned revenues	198	230
Total current liabilities	6,551	6,375
Long-term debt	2,603	2,611
Future policy benefits payable	1,827	1,858
Other long-term liabilities	316	288
Total liabilities	11,297	11,132
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $1 par; 10,000,000 shares authorized; none issued	0	0
Common stock, $0.16 2/3 par; 300,000,000 shares authorized; 196,119,727 shares issued at September 30, 2013 and 194,470,820 shares issued at December 31, 2012	32	32
Capital in excess of par value	2,242	2,101
Retained earnings	9,014	7,881
Accumulated other comprehensive income	196	386
Treasury stock, at cost, 40,206,428 shares at September 30, 2013 and 36,138,955 shares at December 31, 2012	(1,878)	(1,553)
Total stockholders equity	9,606	8,847
Total liabilities and stockholders equity	$ 20,903	$ 19,979

See accompanying notes to condensed consolidated financial statements.

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Humana Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(in millions, except per share results)			
Revenues:				
Premiums	$ 9,698	$ 9,088	$ 29,267	$ 28,029
Services	528	467	1,581	1,251
Investment income	93	96	278	289
Total revenues	10,319	9,651	31,126	29,569
Operating expenses:				
Benefits	8,075	7,467	24,361	23,469
Operating costs	1,540	1,408	4,447	4,175
Depreciation and amortization	83	75	243	218
Total operating expenses	9,698	8,950	29,051	27,862
Income from operations	621	701	2,075	1,707
Interest expense	35	26	105	78
Income before income taxes	586	675	1,970	1,629
Provision for income taxes	218	249	709	599
Net income	$ 368	$ 426	$ 1,261	$ 1,030
Basic earnings per common share	$ 2.34	$ 2.65	$ 7.98	$ 6.34
Diluted earnings per common share	$ 2.31	$ 2.62	$ 7.90	$ 6.27
Dividends declared per common share	$ 0.27	$ 0.26	$ 0.80	$ 0.77

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Net income	$ 368	$ 426	$ 1,261	$ 1,030
Other comprehensive (loss) income:				
Change in gross unrealized investment gains/losses	(16)	116	(286)	168
Effect of income taxes	6	(42)	105	(61)
Total change in unrealized investment gains/losses, net of tax	(10)	74	(181)	107
Reclassification adjustment for net realized gains included in investment income	(4)	(6)	(14)	(20)
Effect of income taxes	1	2	5	7
Total reclassification adjustment, net of tax	(3)	(4)	(9)	(13)
Other comprehensive (loss) income, net of tax	(13)	70	(190)	94
Comprehensive income	$ 355	$ 496	$ 1,071	$ 1,124

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2013	2012
	(in millions)	
Cash flows from operating activities		
Net income	$ 1,261	$ 1,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(14)	(20)
Stock-based compensation	73	68
Depreciation and amortization	312	238
Provision (benefit) for deferred income taxes	31	(6)
Changes in operating assets and liabilities, net of effect of businesses acquired:		
Receivables	(89)	436
Other assets	(165)	(236)
Benefits payable	287	131
Other liabilities	24	121
Unearned revenues	(32)	(95)
Other, net	44	51
Net cash provided by operating activities	1,732	1,718
Cash flows from investing activities		
Acquisitions, net of cash acquired	(161)	(288)
Proceeds from sale of business	33	0
Purchases of property and equipment	(310)	(304)
Purchases of investment securities	(2,665)	(2,166)
Maturities of investment securities	853	1,111
Proceeds from sales of investment securities	1,107	894
Net cash used in investing activities	(1,143)	(753)
Cash flows from financing activities		
Receipts (withdrawals) from contract deposits, net	(201)	(347)
Repayment of long-term debt	0	(36)
Change in book overdraft	(51)	(29)
Common stock repurchases	(325)	(513)
Dividends paid	(125)	(124)
Excess tax benefit from stock-based compensation	6	21
Proceeds from stock option exercises and other	56	49
Net cash used in financing activities	(640)	(979)
Decrease in cash and cash equivalents	(51)	(14)
Cash and cash equivalents at beginning of period	1,306	1,377
Cash and cash equivalents at end of period	$ 1,255	$ 1,363

Supplemental cash flow disclosures:

Interest payments	$	82	$	65
Income tax payments, net	$	724	$	514

See accompanying notes to condensed consolidated financial statements.

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Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are presented in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America, or GAAP, or those normally made in an Annual Report on Form 10-K. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, the reader of this Form 10-Q should refer to our Form 10-K for the year ended December 31, 2012, that was filed with the Securities and Exchange Commission, or the SEC, on February 21, 2013, as amended on April 12, 2013 to correct a scrivener s error in the exhibit index. We refer to the Form 10-K, together with any amendments, as the 2012 Form 10-K in this document. References throughout this document to we, us, our, Company, and Humana mean Humana Inc subsidiaries.

The preparation of our condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The areas involving the most significant use of estimates are the estimation of benefits payable, the impact of risk sharing provisions related to our Medicare contracts, the valuation and related impairment recognition of investment securities, and the valuation and related impairment recognition of long-lived assets, including goodwill. These estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results may ultimately differ materially from those estimates. Refer to Note 2 to the consolidated financial statements included in our 2012 Form 10-K for information on accounting policies that the Company considers in preparing its consolidated financial statements.

The financial information has been prepared in accordance with our customary accounting practices and has not been audited. In our opinion, the information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature.

Business Segment Reclassifications

On January 1, 2013, we reclassified certain of our businesses to correspond with internal management reporting changes and renamed our Health and Well-Being Services segment as Healthcare Services. Our Employer Group segment now includes our health and wellness businesses, including HumanaVitality and Lifesynch s employee assistance programs, which had historically been reported in our Healthcare Services segment. The Retail segment now includes our contract with the Centers for Medicare and Medicaid Services, or CMS, to administer the Limited Income Newly Eligible Transition, or LI-NET, program as well as our state-based contracts for Medicaid members, which had historically been reported in our Other Businesses category. Prior period segment financial information has been recast to conform to the 2013 presentation. See Note 13 for segment financial information.

Military Services

As described in Note 2 to the consolidated financial statements included in our 2012 Form 10-K, on April 1, 2012, we began delivering services under the current TRICARE South Region contract with the Department of Defense, or DoD, as more fully described in Note 12. We account for revenues under the current contract net of estimated healthcare costs similar to an administrative services fee only agreement. Under our previous contract, revenues were reported on a gross basis and included health care services provided to beneficiaries which were in turn reimbursed by the federal government.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting standards that apply to us or that will have a material impact on our results of operations, financial condition, or cash flows.

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Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

3. ACQUISITIONS

On September 6, 2013, we acquired American Eldercare Inc., or American Eldercare, the largest provider of nursing home diversion services in the state of Florida (serving frail and elderly individuals in home and community-based settings). American Eldercare complements our core capabilities and strength in serving seniors and disabled individuals with a unique focus on individualized and integrated care, and has contracts to provide Medicaid long-term care services across the entire state of Florida. The enrollment effective dates for the various regions range from August 2013 to March 2014. The allocation of the purchase price resulted in goodwill of $75 million and other intangible assets of $75 million. The goodwill was assigned to the Retail segment and is deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts and technology, have a weighted average useful life of 9.3 years.

On December 21, 2012, we acquired Metropolitan Health Networks, Inc., or Metropolitan, a Medical Services Organization, or MSO, that coordinates medical care for Medicare Advantage beneficiaries and Medicaid recipients, primarily in Florida. We acquired all of the outstanding shares of Metropolitan and repaid all outstanding debt of Metropolitan for a transaction value of $851 million, plus transaction expenses. The total consideration of $851 million exceeded our estimated fair value of the net tangible assets acquired by approximately $833 million, of which we allocated $263 million to other intangible assets and $570 million to goodwill. A majority of the goodwill was assigned to the Healthcare Services segment and a portion to our Retail segment. The goodwill is not deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts and trade names, have a weighted average useful life of 8.4 years.

On October 29, 2012, we acquired a noncontrolling equity interest in MCCI Holdings, LLC, or MCCI, a privately held MSO headquartered in Miami, Florida that coordinates medical care for Medicare Advantage beneficiaries and Medicaid recipients, primarily in Florida and Texas.

The Metropolitan and MCCI transactions provide us with components of a successful integrated care delivery model that has demonstrated scalability to new markets. A substantial portion of the revenues for both Metropolitan and MCCI are derived from services provided to Humana Medicare Advantage members under capitation contracts with our health plans. In addition, Metropolitan and MCCI provide services to Medicare Advantage and Medicaid members under capitation contracts with third party health plans. Under these capitation agreements with Humana and third party health plans, Metropolitan and MCCI assume financial risk associated with these Medicare Advantage and Medicaid members.

The purchase price allocations of American Eldercare and Metropolitan are preliminary, subject to completion of valuation analyses, including, for example, refining assumptions used to calculate the fair value of other intangible assets.

On July 6, 2012, we acquired SeniorBridge Family Companies, Inc., or SeniorBridge, a chronic-care provider of in-home care for seniors, expanding our existing clinical and home health capabilities and strengthening our offerings for members with complex chronic-care needs. The allocation of the purchase price resulted in goodwill of $99 million and other intangible assets of $14 million. The goodwill was assigned to the Healthcare Services segment and is not deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts, trade name, and technology, have a weighted average useful life of 5.2 years.

Effective March 31, 2012, we acquired Arcadian Management Services, Inc., or Arcadian, a Medicare Advantage health maintenance organization (HMO) serving members in 15 U.S. states, increasing Medicare membership and expanding our Medicare footprint and future growth opportunities in these states. The allocation of the purchase price resulted in goodwill of $44 million and other intangible assets of $38 million. The goodwill was assigned to the Retail segment and is not deductible for tax purposes. The other intangible assets, which primarily consist of customer contracts and provider contracts, have a weighted average useful life of 9.7 years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

The results of operations and financial condition of American Eldercare, Metropolitan, SeniorBridge, and Arcadian have been included in our condensed consolidated statements of income and condensed consolidated balance sheets from the acquisition dates. In addition, during 2013 and 2012, we acquired other health and wellness, provider, and technology related businesses which, individually or in the aggregate, have not had, and are not expected to have, a material impact on our results of operations, financial condition, or cash flows. Acquisition-related costs recognized in each of 2013 and 2012 were not material to our results of operations. The pro forma financial information assuming these acquisitions had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenues and earnings generated during the year of acquisition, were not material.

4. INVESTMENT SECURITIES

Investment securities classified as current and long-term were as follows at September 30, 2013 and December 31, 2012, respectively:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
September 30, 2013				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 620	$ 8	$ (5)	$ 623
Mortgage-backed securities	1,791	42	(26)	1,807
Tax-exempt municipal securities	2,954	101	(25)	3,030
Mortgage-backed securities:				
Residential	32	0	0	32
Commercial	695	23	(8)	710
Asset-backed securities	77	1	(1)	77
Corporate debt securities	3,521	229	(30)	3,720
Total debt securities	$ 9,690	$ 404	$ (95)	$ 9,999
December 31, 2012				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	$ 602	$ 16	$ 0	$ 618
Mortgage-backed securities	1,519	85	(1)	1,603
Tax-exempt municipal securities	2,890	185	(4)	3,071
Mortgage-backed securities:				
Residential	33	2	(1)	34
Commercial	615	44	0	659
Asset-backed securities	66	2	0	68
Corporate debt securities	3,394	402	(2)	3,794
Total debt securities	$ 9,119	$ 736	$ (8)	$ 9,847

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows at September 30, 2013 and December 31, 2012, respectively:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in millions)			
September 30, 2013						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 241	$ (5)	$ 2	$ 0	$ 243	$ (5)
Mortgage-backed securities	671	(25)	23	(1)	694	(26)
Tax-exempt municipal securities	558	(24)	22	(1)	580	(25)
Mortgage-backed securities:						
Residential	7	0	2	0	9	0
Commercial	270	(8)	0	0	270	(8)
Asset-backed securities	36	(1)	0	0	36	(1)
Corporate debt securities	646	(29)	14	(1)	660	(30)
Total debt securities	$ 2,429	$ (92)	$ 63	$ (3)	$ 2,492	$ (95)
December 31, 2012						
U.S. Treasury and other U.S. government corporations and agencies:						
U.S. Treasury and agency obligations	$ 56	$ 0	$ 2	$ 0	$ 58	$ 0
Mortgage-backed securities	38	0	25	(1)	63	(1)
Tax-exempt municipal securities	233	(3)	27	(1)	260	(4)
Mortgage-backed securities:						
Residential	0	0	4	(1)	4	(1)
Commercial	94	0	0	0	94	0
Asset-backed securities	2	0	4	0	6	0
Corporate debt securities	104	(2)	4	0	108	(2)
Total debt securities	$ 527	$ (5)	$ 66	$ (3)	$ 593	$ (8)

Approximately 95% of our debt securities were investment-grade quality, with a weighted average credit rating of AA- by S&P at September 30, 2013. Most of the debt securities that were below investment-grade were rated BB, the higher end of the below investment-grade rating scale. At September 30, 2013, 10% of our tax-exempt municipal securities were pre-refunded, generally with U.S. government and agency securities. Tax-exempt municipal securities that were not pre-refunded were diversified among general obligation bonds of U.S. states and local municipalities as well as special revenue bonds. General obligation bonds, which are backed by the taxing power and full faith of the issuer, accounted for 41% of the tax-exempt municipals that were not pre-refunded in the portfolio. Special revenue bonds, issued by a municipality to finance a specific public works project such as utilities, water and sewer, transportation, or education, and supported by the revenues of that project, accounted for the remaining 59% of these municipals. Our general obligation bonds are diversified across the United States with no individual state exceeding 12%. In addition, 19% of our tax-exempt securities were insured by bond insurers and had an equivalent weighted average S&P credit rating of AA- exclusive of the bond insurers guarantee. Our investment policy limits investments in a single issuer and requires diversification among various asset types.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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The recoverability of our non-agency residential and commercial mortgage-backed securities is supported by factors such as seniority, underlying collateral characteristics, and credit enhancements. These residential and commercial mortgage-backed securities at September 30, 2013 primarily were composed of senior tranches having high credit support, with over 99% of the collateral consisting of prime loans. The weighted average credit rating of all commercial mortgage-backed securities was AA at September 30, 2013.

The percentage of corporate securities associated with the financial services industry was 24% at September 30, 2013 and 23% at December 31, 2012.

Several European countries, including Spain, Italy, Ireland, Portugal, Cyprus, and Greece, have been subject to credit deterioration due to weakness in their economic and fiscal situations. We have no direct exposure to sovereign issuances of these six countries.

All issuers of securities we own that were trading at an unrealized loss at September 30, 2013 remain current on all contractual payments. After taking into account these and other factors previously described, we believe these unrealized losses primarily were caused by an increase in market interest rates and tighter liquidity conditions in the current markets than when the securities were purchased. At September 30, 2013, we did not intend to sell the securities with an unrealized loss position in accumulated other comprehensive income, and it is not likely that we will be required to sell these securities before recovery of their amortized cost basis. As a result, we believe that the securities with an unrealized loss were not other-than-temporarily impaired at September 30, 2013.

The detail of realized gains (losses) related to investment securities and included within investment income was as follows for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Gross realized gains	$ 7	$ 10	$ 24	$ 26
Gross realized losses	(3)	(4)	(10)	(6)
Net realized capital gains	$ 4	$ 6	$ 14	$ 20

There were no material other-than-temporary impairments for the three and nine months ended September 30, 2013 or 2012.

The contractual maturities of debt securities available for sale at September 30, 2013, regardless of their balance sheet classification, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$ 460	$ 464
Due after one year through five years	2,041	2,123
Due after five years through ten years	2,778	2,902
Due after ten years	1,816	1,884

Mortgage and asset-backed securities	2,595	2,626
Total debt securities	$ 9,690	$ 9,999

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

5. FAIR VALUE

Financial Assets

The following table summarizes our fair value measurements at September 30, 2013 and December 31, 2012, respectively, for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		(in millions)		
September 30, 2013				
Cash equivalents	$ 844	$ 844	$ 0	$ 0
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	623	0	623	0
Mortgage-backed securities	1,807	0	1,807	0
Tax-exempt municipal securities	3,030	0	3,017	13
Mortgage-backed securities:				
Residential	32	0	32	0
Commercial	710	0	710	0
Asset-backed securities	77	0	76	1
Corporate debt securities	3,720	0	3,697	23
Total debt securities	9,999	0	9,962	37
Total invested assets	$ 10,843	$ 844	$ 9,962	$ 37
December 31, 2012				
Cash equivalents	$ 1,177	$ 1,177	$ 0	$ 0
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies:				
U.S. Treasury and agency obligations	618	0	618	0
Mortgage-backed securities	1,603	0	1,603	0
Tax-exempt municipal securities	3,071	0	3,058	13
Mortgage-backed securities:				
Residential	34	0	34	0
Commercial	659	0	659	0
Asset-backed securities	68	0	67	1
Corporate debt securities	3,794	0	3,770	24

Total debt securities	9,847	0	9,809	38
Total invested assets	$ 11,024	$ 1,177	$ 9,809	$ 38

Humana Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

There were no material transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2013 or September 30, 2012.

Our Level 3 assets had a fair value of $37 million at September 30, 2013, or less than 0.4% of our total invested assets. During the three and nine months ended September 30, 2013 and 2012, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	For the three months ended September 30, 2013			2012		
	Private Placements/ Venture Capital	Auction Rate Securities	Total	Private Placements/ Venture Capital	Auction Rate Securities	Total
			(in millions)			
Balance at July 1	$ 23	$ 13	$ 36	$ 25	$ 15	$ 40
Total gains or losses:						
Realized in earnings	0	0	0	0	0	0
Unrealized in other comprehensive income	1	0	1	0	0	0
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	(2)	(2)
Settlements	0	0	0	0	0	0
Balance at September 30	$ 24	$ 13	$ 37	$ 25	$ 13	$ 38

	For the nine months ended September 30, 2013			2012		
	Private Placements/ Venture Capital	Auction Rate Securities	Total	Private Placements/ Venture Capital	Auction Rate Securities	Total
			(in millions)			
Balance at January 1	$ 25	$ 13	$ 38	$ 25	$ 16	$ 41
Total gains or losses:						
Realized in earnings	0	0	0	0	0	0
Unrealized in other comprehensive income	0	0	0	0	0	0
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	(3)	(3)
Settlements	(1)	0	(1)	0	0	0
Balance at September 30	$ 24	$ 13	$ 37	$ 25	$ 13	$ 38

Financial Liabilities

Our long-term debt is recorded at carrying value in our consolidated balance sheets. The carrying value of our long-term debt outstanding was $2,603 million at September 30, 2013 and $2,611 million at December 31, 2012. The fair value of our long-term debt was $2,745 million at

September 30, 2013 and $2,923 million at December 31, 2012. The fair value of our long-term debt is determined based on Level 2 inputs, including quoted market prices for the same or similar debt, or if no quoted market prices are available, on the current prices estimated to be available to us for debt with similar terms and remaining maturities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As disclosed in Note 3, we completed our acquisitions of American Eldercare during 2013 and Metropolitan, SeniorBridge, and Arcadian during 2012. The values of net tangible assets acquired and the resulting goodwill and other intangible assets were recorded at fair value using Level 3 inputs. The majority of the related tangible assets acquired and liabilities assumed were recorded at their carrying values as of the respective dates 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 these acquisitions were internally estimated primarily based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets are expected to generate in the future. We developed internal estimates for the expected cash flows and discount rates in the present value calculations. Other than assets acquired and liabilities assumed in these acquisitions, there were no assets or liabilities measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2013 or 2012.

6. MEDICARE PART D

We cover prescription drug benefits in accordance with Medicare Part D under multiple contracts with CMS. The condensed consolidated balance sheets include the following amounts associated with Medicare Part D at September 30, 2013 and December 31, 2012. Amounts included below relating to the 2012 contract year for the net risk corridor payable of $210 million and the CMS subsidies receivable of $539 million at September 30, 2013 are expected to be settled in the fourth quarter of 2013.

	September 30, 2013		December 31, 2012
	Risk Corridor Settlement	CMS Subsidies/ Discounts	