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Conference Call Transcript

WLP - Q1 2006 WellPoint, Inc. Earnings Conference Call

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PRESENTATION

Operator

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Ladies and gentlemen, thank you for standing by, and welcome to the WellPoint conference call. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. I would now like to turn the conference over to the Company's management.

Wayne DeVeydt - WellPoint - Chief Accounting Officer & IR

Good morning and welcome to WellPoint's first-quarter conference call. I am Wayne DeVeydt, Chief Accounting Officer and executive responsible for Investor Relations. With me this morning are Larry Glasscock, our Chairman, President and Chief Executive Officer, and Dave Colby, Chief Financial Officer. Larry will begin this morning's call with an overview of our first-quarter accomplishments. Dave will offer a more detailed review of our first-quarter financial performance which will be followed by a question-and-answer session. During the question-and-answer session, Joan Herman, President and CEO of our Specialty, Senior and State-Sponsored business, and Susan Rawlings, President of Senior Services, will be available to answer any specific questions related to our Senior business.

We will be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of WellPoint. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in our press release this morning and other periodic filings we make with the SEC.

In addition, our discussion will include non-GAAP financial measures such as comparable basis information as defined under the SEC rules. As required by the rules, a reconciliation of those measures to the most comparable GAAP measures is available on our website at www.WellPoint.com.

I will now turn the call over to Larry Glasscock.

Larry Glasscock - WellPoint - Chairman, President & CEO

Thank you, Wayne, and good morning, everyone. We are very pleased to report an outstanding first quarter of 2006, the first quarter following the merger with WellChoice on December 28 of 2005.

In the first quarter, WellPoint reported GAAP net income of \$1.09 per diluted share. This included \$0.01 per share in net realized investment losses and, as expected, \$0.04 per share in stock option expense. This is the 18th consecutive quarter, every quarter since our IPO that we have met or exceeded our prior guidance.

Just as a reminder, net income in the first quarter of 2005 was \$0.98 per share, which included \$0.04 per share in tax benefits based upon the favorable resolution of a tax matter last year. Operating revenue reached an all-time high of \$13.6 billion in the quarter. That is a 26% increase year-over-year and a 10.4% increase on a comparable basis. Comparable basis information was calculated by adding the historical information for WellPoint and WellChoice. Comparable revenue increases were driven by disciplined pricing, the New York State Prescription Drug Benefit contract and our new Medicare Part D business.

Our enrollment increased by more than 300,000 medical members from year-end and is now approximately 34.2 million medical members. This growth is after covering the loss of 315,000 Georgia state account PPO members we had previously discussed. We added more than 600,000 national account members in the first quarter.

Our membership has increased by about 950,000 or 3% on a comparable basis from March 31, 2005. Every region contributed to this growth with the West leading the way with almost 5% membership growth.

Enrollment for 2005 has been reclassified to conform to our current and more uniform presentation of membership covered under minimum premium amendments to fully insured contracts. This reclassification resulted in a 350,000 member increase in self-funded enrollment at December 31, 2005 and a corresponding decrease in fully insured enrollment with no impact on total membership that was previously reported. Our press release this morning fully explains the impact of this reclassification.

Sequentially our fully insured membership declined by 111,000 members. The fully insured large groups that we lost covered 139,000 members and had a benefit expense ratio 430 basis points higher than our overall benefit expense ratio for this type of business. We remain very disciplined in our underwriting approach, and we do not trade margins for volume, nor do we want certain groups subsidizing other groups.

From a business mix perspective, approximately half of our membership was fully insured at March 31, 2006 and half was self-funded.

We have seen significant growth in our National Accounts business, adding more than 900,000 members over the past year. Our sustainable competitive strengths includes broad cost-effective networks and excellent customer service. Although it is still early in the RFP cycle for 2007, proposal activities seem similar to prior years, and we are again optimistic that we will continue to see strong growth in National Accounts next year.

Our Large Group business declined by 191,000 members on a comparable basis from the first quarter of 2005, due primarily to the previously announced loss of the 315,000 member state of Georgia PPO account. We saw increases on a comparable basis in every other customer type.

Individual and Small Group, or ISG as we refer to it, added 67,000 members over the past 12 months. The Individual Center of Business Excellence is busy rolling out our Tonik product to more WellPoint markets. Since its introduction in California, Tonik has been identified as a best practice to be shared across the Company and was offered in Colorado in November of 2005, in Nevada just this month and as a product named Sound in Texas and Illinois under the UniCare brand in January of this year. WellPoint has had great success with Tonik in targeting young invincibles who are those uninsured individuals in their 20s whose health insurance needs are different. These PPO-based benefit plans offer affordability and flexibility. By many measures, the success of Tonik has been phenomenal. In fact, 78% of California applicants were previously uninsured. As a result of these successes, WellPoint will next offer Tonik to individuals in Connecticut, Georgia, Maine and New Hampshire this fall. Extending Tonik to additional market supports two of our strategic corporate objectives: growing profitable medical membership and reducing the rate of the uninsured. By providing more attractive and affordable options to individuals in Small Groups, we can favorably affect the number of uninsured Americans while continuing profitable growth.

In 2005 we provided new Individual policies to 378,000 people who had previously been uninsured. In the first quarter, we sold insurance to about 100,000 uninsured individuals. We will continue our efforts to reach uninsured Americans with affordable coverage.

In addition to covering the uninsured with commercial products, we have continued our success in State-Sponsored business by adding 140,000 members on a comparable basis from the first quarter of '05. We are the largest Medicaid managed care insurer in the country and administer Medicaid and children's health insurance programs in a number of states. This quarter we announced our expansion into Ohio. We were selected as a plan partner for Ohio's Medicaid expansion initiative in the Northeast, Northeast Central and Northwest regions.

We have the opportunity to be awarded additional business in Ohio as they will rebid the Central region since they were only able to tentatively award two plans for that region and not three as desired. The statewide implementation of all regions will be completed by December 2006.

Further expanding our Medicaid presence in Ohio, you should have seen a press release today announcing that we entered into an agreement in principle to acquire QualChoice Health Plan, an Ohio-based managed care organization that focuses on the Medicaid population. QualChoice currently serves approximately 68,000 Medicaid members. The acquisition is expected to close in the third quarter of 2006 subject to standard closing conditions and, of course, state regulatory approval. Due to the relatively small size, this transaction will not have a material impact on our earnings per share guidance for 2006.

In addition to Medicaid, our Medicare business is also growing. In the first quarter of 2006, we added 1.3 million Medicare Part D drug benefit members. Our other senior business comprised of Medicare advantage and Medicare supplement increased by 26,000 members on a comparable basis over the last year. Our Medicare Advantage business gained 60,000 members or 30% over the past year, while our Medicare supplement business declined by 34,000 members or 3%, in line with our expectations as Part D products became available.

At March 31, we had 665,000 consumer directed Health Plan members, an increase from 507,000 CBHP members at year-end 2005 and 86,000 members at year-end 2004. We are very excited about the new consumer directed products we will be releasing for effective dates in 2007. Leveraging the strength of our Lumenos experience, these new products represent a quantum leap over those currently available in the marketplace. Early results indicate that by applying principles honed in our Lumenos subsidiary, our new line of products will provide incentives that can actually reduce medical risk factors. Preliminary results have shown to dramatically impact medical costs, not just in the first year but in subsequent years as well.

Our vision at WellPoint is to transform health care and become the most valued Company in our industry. We believe this next generation of products is going to create a sustainable advantage over our competition and will revolutionize the delivery of health care in America, branding WellPoint as the leader in affordable quality care.

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In order to become informed consumers of Health Care, our members will need access to greater price and quality transparency for the services offered by physicians and hospitals. During the first quarter, I traveled to the White House to participate in the discussion about Health Care transparency with President George W. Bush and other high-ranking administration and business officials. The President at that time expressed his strong preference for putting control in the hands of consumers rather than the government, and that choice and private markets will better serve the American public. Our belief is that consumer-driven health plans support this approach. We believe that providing consumers with information regarding cost and quality will cause them to act in their self-interest, which should result in the Health Care system producing better results at a lower cost.

In another initiative to improve the quality of care provided to our members, earlier this month we announced a strategic alliance with Resolution Health to use its market-leading data analytic capabilities. Resolution Health will analyze WellPoint's members' medical and pharmacy claims data, lab results and information that members self-report through online health assessments and personal health records. These sophisticated analyses will serve as the foundation for customized communication programs that target both members, as well as their physicians. We will integrate Resolution Health's products and services into our comprehensive care management platform. These communication programs include sending members personalized health statements that offer a comprehensive review of their recent medical and pharmacy claims, easy to understand recommendations about how they can reduce out-of-pocket costs and improve the quality of care they receive, and a detailed report to share with their physicians. This personalized approach to health improvement also includes member access to customized health information from Harvard Medical School and personalized messages and coupons that provide members with discounts for over-the-counter medications and other health services that may be useful for them.

In another medical information initiative, we have a program in Missouri that makes WellPoint medical data for our members available to emergency departments to improve care and save money. We call this program Medical Records for Emergency Departments or MR ED. MR ED uses information from submitted claims and health plan functions such as utilization management to provide fast easy access to member information by emergency room physicians when our members are not able to communicate. Access to this information is valuable to ER physicians who often make treatment decisions for acutely ill patients without the benefit of important clinical information like drug utilization about those patients. As a result, medical errors can happen and excessive tests or hospital admissions may occur. MR ED emerged from compelling studies, including one by Vanderbilt University and Accenture that showed significant cost savings by providing relevant clinical information at the point of care.

WellPoint is uniquely positioned to implement this program because of our national reach and local market penetration, which enables collection of important outpatient and inpatient data. We are expanding MR ED to California this year and then to other states across the country.

In addition to making actionable information available to medical providers, we are also making more information available to our large employer customers. In California, for example, we recently implemented predictive health assessment reports. These reports are available to large employer clients with at least 1500 employees. This annual report provides a comprehensive view of cost and medical data, as well as predictive cost modeling for the subsequent plan year.

Another way we are addressing medical costs is through our rapidly growing specialty pharmacy. In July of 2005, we launched Precision Rx Specialty Solutions, a full-service specialty pharmacy designed to help improve quality and cost of care by coordinating biopharmaceuticals that are also known as specialty medications. Therapies for transplant recipients, AIDS and multiple sclerosis are the three largest currently served by our specialty pharmacy.

In this rapidly growing business, we processed more than 94,000 specialty prescriptions in the first quarter of this year, and cost of care savings are being realized from enhanced procurement processes, reduced unit costs and strong clinical therapy management programs.

In addition to improving quality and cost of medical care, we are also improving our service to employers. Employer access is an online dashboard for small employers to have easy access to administer their benefit program, and participation continues to grow. We now have over 10,000 small employers signed up for this service. By allowing groups to have access to their accounts to perform eligibility and billing changes, we are able to improve employer satisfaction while lowering administrative costs.

We are continuing to address selling, general and administrative expenses as a percentage of our revenue. On a comparable basis, our SG&A ratio was 16% in the first quarter of '06, equal to that in the first quarter of '05 despite covering 39 million in stock option expense in the first quarter of '06 and disproportionate growth in our ASO business, which as you know runs a higher SG&A ratio. We have additional opportunities to reduce our administrative costs by executing our merger integration plans and better leveraging technology. Our integrations are proceeding according to plan, and for 2006 we continue to expect 100 million in incremental synergies from our WellPoint/Anthem merger and 25 million from our WellChoice merger. We have achieved our first-quarter synergy goals.

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Just three months following the WellChoice merger, I'm very pleased with our success to date. Dr. Stocker and his management team have done a great job achieving planned integration milestones to date. Our objective within the new East region and across our company is to further build a highly customer focused and efficient organization based upon our market depth and our regional and enterprise best practices. Our success is receiving national attention. WellPoint was ranked number two on the 2006 Business Week Magazine annual list of the 50 Top Performing Companies in the Standard & Poor's 500. Business Week referenced our overall growth in membership, efforts to sign up new members in Medicare Part D products, focus on reaching out to the uninsured with affordable products and stock appreciation. This recognition is an additional indication that focusing on customer service, improving the quality of health care our members receive and doing everything we can to help hold down the rising cost of health care are the right things to do. Our vision to transform health care and become the most valued company in our industry will continue to guide us going forward.

I will now turn the call over to Dave Colby who will discuss our first-quarter financial results. Dave, as you know, once again has been named the best CFO in the managed care sector by Institutional Investor Magazine. Dave?

Dave Colby - WellPoint - CFO

Thank you, Larry, and good morning. First, I would like to say that we are very pleased with our first-quarter 2006 earnings per diluted share of \$1.09. This included \$0.01 per share in net realized investment losses and the expected \$0.04 per share in FAS 123R stock option expense. Net income in the first quarter of 2005 was \$0.98 per share, which included \$0.04 per share in tax benefits based on a favorable resolution of a tax matter. After taking into account these items for both periods, our year-over-year earnings per share in the first quarter increased 21%.

A significant driver of first-quarter year-over-year changes relates to the inclusion of WellChoice operations following the merger on December 28, 2005. Where appropriate my financial commentary this morning will compare current results to the three months of WellPoint and WellChoice on a combined basis for the first quarter of 2005, which I will refer to as comparable basis information.

As with any merger, income statement and balance sheet classifications need to be adjusted to ensure reporting consistency, and the WellPoint/WellChoice merger is no exception. We have reclassified the previously reported WellPoint and WellChoice results into the new WellPoint Inc. format and classifications. The bottom line did not change, but the geography did.

The most significant reclassifications relate to the reporting of minimum premium amendments to fully insured contracts. Minimum premium amendments are a fully insured contract with a self-funded component. We have taken the opportunity of our merger with WellChoice to adopt a consistent practice for minimum premium accounting throughout our enterprise. Reconciliations of these reclassifications and comparable basis information to the historical GAAP information of the Legacy companies are available at our website, www.WellPoint.com.

Turning to premium revenue, it was 12.6 billion in the first quarter of 2006, an increase of 1.2 billion or 10.5% on a comparable basis over the first quarter of 2005, due to disciplined pricing across all lines of business, the New York State Prescription Drug Contract and growth in our Senior business, including Medicare Part D. On a comparable basis, fully insured membership declined by 124,000 members over the past 12 months, due primarily to the 149,000 member Georgia state employee HMO group that converted from fully insured to self-funded in mid-2005 and the lapse of high benefit expense ratio cases that were receiving above-average rate increases as Larry discussed.

Administrative fees were 884 million in the first quarter of 2006, an increase of 63 million or 7.7% on a comparable basis over the first quarter of last year, due primarily again to disciplined pricing and membership growth. On a comparable basis, self-funded membership increased by 1.1 million members or 6.7%.

The benefit expense ratio was 81.3% in the first quarter of 2006, which was consistent with our expectations and 20 basis points lower than the first quarter of 2005, again on a comparable basis. Based upon medical cost trends in the first quarter, we remain comfortable with our 2006 medical cost trend estimate of just less than 8%, about 50 basis points lower than 2005. Premium yield exceeded total cost trend for the period. The total cost trend including medical costs and SG&A expense, confirming our disciplined pricing. We remain very disciplined in our underwriting approach, and we do not chase business that we believe is priced below our profitably targets as evidenced by the lapses in our high benefit expense ratio cases.

We are continuing to see generally rational pricing in this very competitive marketplace. Our gross margin -- that is premium minus benefit expense -- continues to increase on a per member per month comparable basis.

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Inpatient and outpatient services continue to drive our medical cost trend increases. Inpatient trend is all related to unit cost increases as utilization has been flat to slightly lower. Both admissions per 1000 and days of care per 1000 members have actually declined slightly. Outpatient services are a collection of different types of services. These include outpatient surgery, radiology, laboratory services, occupational therapy, physical therapy and others. We have successful programs like our Radiology Management Program that we're expanding throughout our enterprise to impact outpatient trend and optimize these services. Physician trend is in the mid-single digit range and is almost equally divided between cost and utilization, while pharmacy trend is about 60% utilization and 40% unit cost-driven.

The SG&A ratio in the first quarter was 16.0%, equal to the first quarter of 2005 on a comparable basis. As noted earlier, we did begin expensing stock options in the first quarter of 2006, and this increased the SG&A ratio by 30 basis points. Furthermore, our changing business mix to more self-funded business on a year-over-year basis increased this ratio by about 40 basis points. These increases were offset by productivity improvements, including the use of technology to improve productivity and our outsourcing initiatives. The percentage of claims received electronically and the percentages of auto adjudicated claims continue to grow with both exceeding 77%. Almost 40% of our customer service calls were completed using our interactive voice response technology in the first quarter of 2006.

As Larry mentioned earlier, our WellPoint/WellChoice integration is going well and according to plan. Some first-quarter accomplishments include, our organization and restructuring announcements are complete. Our national business and staff serving national business became part of our national SBU. We also created the East region headed by Dr. Stocker, which includes four geographic markets -- the Northeast, which is Connecticut, New Hampshire and Maine; Virginia; Georgia and New York. The restructured East region has consolidated certain functions into a regional structure such as operations, medical management and actuarial support. Corporate functions such as corporate finance, corporate actuarial, legal, human resources, etc. from WellChoice have been consolidated into the WellPoint structure. We have developed a consolidated IT plan of record for the East region, and all basic infrastructure items have been integrated such as e-mail and voicemail and so on.

We will continue to see our SG&A ratio decline in future years as we control our spending, meet our integration synergy targets and spread our administrative expense over a larger membership base.

Turning to net investment income, it was higher than expected and resulted from our strong cash flow, temporarily higher cash balances as we held cash pending the WellChoice shareholders presenting their shares for a payment at the beginning of the year, higher short-term investment rates and restructuring the WellChoice investment portfolio to improve yield.

Amortization was a little lower than we originally anticipated as the purchase price allocation continued to be refined. This reduction in amortization expense was partially offset by an increase of depreciation expense that is included in general expenses. Interest expense in the first quarter of 2006 was higher than last year due to the debt added for the WellChoice transaction and was consistent with guidance.

On a business segment basis, the health care segment consists of our three health insurance geographies plus national accounts, as well as the Senior and State-Sponsored businesses. In the first quarter of 2006, operating revenue in our health care segment was 13.1 billion, an increase of 1.3 billion or 11% on a comparable basis to the first quarter of 2005 led by disciplined pricing, the New York State Prescription Drug Contract and new Medicare Part D products. Our operating gain was \$1 billion, an increase of 82 million or 8.6% on a comparable basis over the first quarter of 2005. This was due to disciplined pricing across all of our business and a focus on expense management. The operating margin was 7.9%, a 20 basis point reduction on a comparable basis due to a business mix shift, including the addition of lower margin government business, stock option expense in accordance with FAS 123R, and Medicare Part D implementation costs.

The specialty segment includes pharmacy benefit management, our specialty pharmacy, dental, vision, life, disability, behavioral health and worker's comp businesses. In the first quarter of 2006, operating revenues in our specialty segment was 854 million, an increase of 95 million or 12.5% on a comparable basis. The main driver was a 31.2% increase in PBM prescription volume, primarily due to the Medicare Part D products.

Operating gain was 114 million in our specialty segment, an increase of 19 million or 19.6% on a comparable basis over the first quarter of 2005, due primarily to our PBM. The operating margin improved 80 basis points to 13.3% from 12.5% on a comparable basis as our PBM benefited from higher volumes, improved pharmaceutical contracting and growth in our specialty drug distribution business.

The other segment is comprised of our Medicare processing business, Arcus enterprises, inner-segment revenue and expense eliminations and corporate expenses not allocated to our health care and specialty segments. On a comparable basis, the operating loss decreased \$35 million, primarily due to lower compensation expense related to merger activities and allocations.

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Now moving to the balance sheet. Our current assets were 11 billion at March 31, 2006, a decrease of 524 million from year-end 2005 as we accelerated our share repurchases. Total assets were 51.4 billion at March 31, up about 79 million from year-end. Our medical claims payable were 5.2 billion at the end of the first quarter, an increase of 309 million from year-end 2005.

Our days in medical claims payable reported at March 31, 2006 was 45.4 days. The reported days claims payable at December 31, 2005 were 54.5 days, but this did not include the benefit expense for WellChoice in the fourth quarter of 2005. If WellChoice had been included for the fourth quarter of 2005, days claims payable at 12/31/05 would have been 47 days. Accordingly, days claims payable on a comparable basis declined by 1.6 days during the quarter. This decrease was primarily attributable to first, adding the New York State and Medicare Part D Prescription Drug Benefit programs that reduce days claims payable by 1.2 and .8 days respectively, a total of two days, as the vast majority of prescription drug claims are presented and adjudicated electronically in real-time and thus experience a much faster payment cycle time. Another factor was the timing of our PBM claim payments, which added .2 days, and we had some miscellaneous items that increased days claims payable by .2 days.

Our long-term debt was 6.7 billion at March 31, 2006, a 339 million increase from year-end as we replaced temporary bridge loans following our December 28 WellChoice merger with permanent financing. Our debt to capital ratio was 22.8% at March 31, 2006 compared to 21.4% at December 31, 2005, despite the 1.9 billion in share buybacks during the quarter.

Our practice is to not include a first-quarter roll forward schedule of medical claims payable reserves in our press release because claims have not developed enough in 90 days to be much more precise than at year-end. We continue to establish reserves in a consistent and conservative manner and will provide of roll forward schedule in our second-quarter 2006 earnings release.

Operating cash flow was \$1.8 billion in the first quarter of 2006, 2.5 times our net income, indicating strong quality earnings. Operating cash flow in the quarter benefited from approximately 448 million in CMS payments that relate to the second quarter of 2006. Even if you exclude the CMS payment, our operating cash flow was 1.8 times our net income.

As a reminder to our shareholders, cash flow from operations in the second quarter of 2006 will be lower due to the CMS payment and making two federal income tax payments in the second quarter. Historically the second quarter is our lowest operating cash flow quarter of the year.

During the first quarter, we used 1.9 billion of cash to repurchase 24.7 million shares of WellPoint common stock. On March 15, 2006, our Board of Directors approved an additional 1 billion of share repurchases, raising our 2006 authorization to a total of \$3 billion. During the first few days of April, we used 400 million of cash to repurchase an additional 5.3 million shares. Accordingly, the remaining share buyback authorization is approximately 681 million. At our current stock price, we view our stock as a compelling value, and we expect to complete this authorization during the second quarter.

Let me turn to 2006 guidance. We remain confident in our ability to grow both revenues and earnings through the rest of this year and into 2007. We expect year-end membership to be 34.8 million members, consistent with our prior guidance and at the low end of our targeted range with 17.2 million self-insured members and 17.6 fully insured members. 2006 operating revenue is expected to be 56.6 billion. Our 2006 benefit expense ratio is expected to be 80.9%, and our SG&A expense ratio is expected to be 16.0.

We now expect full-year 2006 GAAP earnings per share to be around \$4.63, which includes \$0.01 per share in net realized investment losses, which means that we are increasing 2006 annual guidance by \$0.10 per share. Our prior guidance of \$4.54 did not include net realized investment losses.

Accordingly, earnings per share breakdown is \$1.14 in the second quarter, \$1.18 in the third quarter, rising to \$1.22 in the fourth quarter. The increasing guidance results from favorable performance in the first quarter, lower weighted average shares outstanding than we expect to be 657.3 million for the full-year 2006 and a favorable business environment. We continue to expect cash flow from operations to exceed \$4 billion in 2006.

I will now turn the call back over to Larry to lead the question-and-answer session.

Larry Glasscock - WellPoint - Chairman, President & CEO

Dave, thank you very much. Now let's open the call up for questions.

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QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Josh Raskin, Lehman Brothers.

Josh Raskin - *Lehman Brothers - Analyst*

My question is on the decrease in the medical loss ratio. I guess two parts to it. First, could you let us know what was the actual PDP impact, and I am assuming that was obviously an inflationary impact?

And then secondarily, I know, Dave, you had said you do not disclose the prior period reserve development in the first quarter, which I know is consistent with historical standards. Just anything unusual there, or should we read into it no disclosure means nothing unusual?

Dave Colby - *WellPoint - CFO*

Addressing your second question first, I think you'll find that there is nothing materially different.

Relating to your first question, while I don't want to disclose the specific loss ratios of individual products, it is true that the Medicare Part D had an impact of increasing our medical care ratio certainly in the first quarter, which, based on seasonality, should be its highest medical loss ratio in the quarter.

Josh Raskin - *Lehman Brothers - Analyst*

Dave, can you give us maybe the Part D revenues and then we can make an assumption as to what the loss ratio may be?

Dave Colby - *WellPoint - CFO*

I think we are looking now at our Part D revenues for the year being close to about 1.3 to 1.4 billion. Of course, that is offset by some Medicare Supplement that moved to Part D.

Josh Raskin - *Lehman Brothers - Analyst*

Can we assume that it comes in ratably the way you are accounting for it?

Dave Colby - *WellPoint - CFO*

I'm not sure I understand the question.

Josh Raskin - *Lehman Brothers - Analyst*

The revenues, the 1.3 to 1.4 billion, does that come in ratably over the fourth quarters, or is there a lower number than the first quarter, excluding changes in membership, I guess is the way I'm looking at it?

Dave Colby - *WellPoint - CFO*

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Well, most of our membership will be coming in in the first quarter. We finished with 1.3 million lives. We are still guiding of 1.5 to 2 million lives. The auto assigned came in early in the quarter and rose pretty ratably throughout the quarter.

Josh Raskin - Lehman Brothers - Analyst

Okay. I am sorry, the last question. Just the stock option expense, still a \$0.20 impact this year?

Dave Colby - WellPoint - CFO

Yes.

Operator

Scott Fidel, JPMorgan.

Scott Fidel - JPMorgan - Analyst

Larry, I'm interested if you can talk a bit on the recent Massachusetts legislation that was just approved and your views on that? First, whether you see this as a viable model for other states? Also, some of the potential risks in the legislation and also potential opportunities for WellPoint given your focus on the Individual markets?

Larry Glasscock - WellPoint - Chairman, President & CEO

We will spend a few minutes on this because it has certainly captured the imagination of the country. We believe that the legislation that was passed in Massachusetts contains some provisions that will help ensure more Americans. But, at the same time, we think there are some provisions in there that are potentially troubling. Our initial review of the legislation indicates that we think there is some regulatory and operational issues that could exist for health plans. There is some complexity there that we want to understand better.

So the other thing I think I would have to say looking at it early on is it is still not clear to us if both the financial and revenue arrangements are going to be sufficient to maintain the program over long-term. Remember they had a very low uninsured rate relative to other parts of the country.

So I think the thing that I would say about it is that we continue to believe that there is no single solution to reducing the number of uninsureds in America. We think, if you look at our strategy, it has been to really focus around looking at the ranks of the uninsured, and to try to really have very specific programs targeted across each of those segments. You will know, for example, that a third of those uninsured are people that are already eligible for programs either state or federal. They are simply not enrolled. So we have got to get them enrolled.

Another third are people that can afford coverage and for whatever reason have chosen not to purchase it. Either they don't know it is available or they don't know that it is truly affordable. And then finally, the third are people that are working who are simply unable to afford coverage.

So our thoughts continue to be that you have to have very specific programs around each of those segments, and some of this Massachusetts legislation does, in fact, address that.

So we are going to obviously continue to do some work on it. We think there's some good ideas in there, and I'm sure in a number of states around the country there will be more experiments, and we will be an active participant in many of those because, as you know, we have the Blue Cross and Blue Shield companies now in 14 states.

Scott Fidel - JPMorgan - Analyst

Thanks. That is helpful. And just a follow-up. Dave, can you break out in the Part D enrollment - how that is split between stand-alone Part D and MAPD members and then also just within your overall Medicare enrollment - what the mix is between Medicare Advantage and Medicare Supp members?

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Dave Colby - WellPoint - CFO

Yes, I will let Joan respond to that.

Joan Herman - WellPoint - President & CEO, Specialty, Senior & State-Sponsored

This is Joan Herman. First, on the Part D, we have about 900,000 members that are stand-alone PDP. They are auto assigned or signed up with us. We expect we have about 200,000 that are through MedAdvantage PD. We have about 60,000 members that are group waivers, and then our PBM services, various other external clients for Part D, and that is about 150,000 members.

Your second question was on our MedAdvantage membership, is that correct?

Scott Fidel - JPMorgan - Analyst

Yes, overall Medicare, the split between MedAdvantage and MedSup?

Joan Herman - WellPoint - President & CEO, Specialty, Senior & State-Sponsored

Okay. MedAdvantage is about 259,000 members. The rest of the medical membership is the MedSup.

Scott Fidel - JPMorgan - Analyst

Okay. Great. Thank you.

Operator

John Rex, Bear Stearns.

John Rex - Bear Stearns - Analyst

I was wondering if you could speak for a moment about your expectations for fully insured enrollment in '06. You guys look like you're looking for I think you indicated about 400,000 net adds in the year.

I just want to think about I guess, first, in terms of how that breaks down. My guess would be that is a maybe third in Medicaid or so given your contract wins in Ohio. Kind of given the performance in the quarter on fully insured, how should we think about the risk-based pricing environment? What are you seeing in your market in terms of pricing aggression from competitors? If you just follow again on the fully insured theme on the ISG, I noticed that was flat sequentially and just looking for any color on that in terms of growth expectations.

Larry Glasscock - WellPoint - Chairman, President & CEO

John, first of all, I would say the market overall continues to be rational. From time to time, you'll always see someone reach out and get a piece of business where they have been very competitive and sometimes you might say more than competitive. But I think overall the market continues to be very disciplined.

We have obviously focused a lot on membership growth. We think it is obviously very important. The decline that I spoke about earlier is really principally around Large Group lapses. We had probably about 135,000 or so members in 35 cases. When we go through those in detail, what you see are what I referred to earlier, which are expense ratios -- benefit expense ratios -- quite a lot higher than the average of our Large Group business. So I think when looked at in total, it was about, as I mentioned, 430 basis points.

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So again, the market remains rational. The point I would want to make is, as I made earlier, we remain very disciplined in our underwriting. We do not chase business that is below our targeted profitability levels. We recognize at times that they may mean a loss of an account, but we do not believe it is fair for some accounts to always subsidize other accounts. So again, we are going to be, as I said, very disciplined.

We also, as you would expect, continue to have some accounts, a few large ones in particular where they are changing their funding arrangements from fully insured to self-funded. So that is something that you see from time to time, and we certainly are experiencing a little bit of that.

On the ISG side, we continue to be very optimistic about our product set in that segment of the market. We have talked a lot about Tonik today and at other times. We also have this product that I mentioned probably on our last call called BeneFits, which is very effective in reaching the Small Group market. In fact, about 84% of the members that are buying that product were previously uninsured.

So we continue to be optimistic in part because we see the uninsured as a competitor of ours in the sense that they don't have coverage, and we think we are very focused on making sure they get coverage. So again, I think we're going to have a good year overall, as Dave described in his guidance.

Dave Colby - WellPoint - CFO

I would just add that a lot of our insured membership generally comes in more evenly throughout the year as opposed to the ASO, which is a big first quarter add. I think you will see growth in our fully insured, in our Individual and Small Group and our Seniors. We keep selling products there and in the state-sponsored programs as we add Texas and Ohio. So I think that will be good.

Again, I would just go back to reiterate that we think the market is still for the most part rational because just look at our overall membership growth. We still grew by over 300,000 members in the quarter, and that was after losing some big cases like the state of Georgia or even if you want to add the state of Kentucky employee account. Put those two together, you're almost 400,000 lives that we started off negative. You don't sell the magnitude of cases that we sold if the pricing environment is not good.

So we feel very comfortable with the new business that we have brought on. We hate losing any accounts that we lose, but the accounts that we did do not have a material negative impact on us because they were generally the higher loss ratio cases. So I think again membership -- I'm very pleased with and certainly is supporting good financial performance for 2006.

Larry Glasscock - WellPoint - Chairman, President & CEO

John, I think it just points to a strength of our Company, and that is the breadth of our membership base. I mean we are in Large Group. We are in Small Group. We are in Individual. We are in Senior. We are in Medicare. We are in Medicaid. I mean it is a tremendous strength of our Company.

John Rex - Bear Stearns - Analyst

Just in terms of visibility on the 400,000 net adds, should I think of that as about a third to half state program and the rest commercial if I'm thinking about kind of how it just really roughly breaks down over the course of the year?

Dave Colby - WellPoint - CFO

I think that is a reasonably close estimate.

Operator

Matthew Borsch, Goldman Sachs.

Matthew Borsch - Goldman Sachs - Analyst

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A question on the share repurchase and the impact on the outlook. Leaving aside the extra 1 billion in buybacks you're planning, can you talk to the impact on your 2006 EPS guidance from the timing of the 2 billion share repurchase that you did in the first quarter, or almost all of it in the first quarter, as compared to your prior guidance that it would be spread through the year?

Dave Colby - WellPoint - CFO

Yes, I think if you were to break that out, the impact by getting in essence the \$2 billion done in the first quarter, although it spilled a little bit into April to get it fully done versus over the full year added about \$0.03 per share to the \$0.10 that we raised guidance. The extra third billion if we are successful at getting that done in the second quarter is another about \$0.02.

Matthew Borsch - Goldman Sachs - Analyst

Okay. On just a slightly different topic, looking back at WellChoice for the prior quarter, we were just looking back and had rolled up the pretax earnings from the regulated insurance subsidiaries, and just at first glance, it looks like WellChoice pretax earnings were down about 7% year-over-year versus a 21% increase for the first nine months. I'm just wondering if you can address were there any one-time items that might have impacted WellChoice during the fourth quarter and if any of those would carry over into 2006?

Dave Colby - WellPoint - CFO

I don't think there would be anything major. There were some obvious adjustments in their fourth-quarter numbers to bring some of their reserving methodologies and such consistent with WellPoint's. But I would have to look - it seems strange it would have that big an impact.

Matthew Borsch - Goldman Sachs - Analyst

Okay. Just one more if I could slip it in, which is on the commercial insured book, do you expect it is going to grow over the next nine months relative to where it is today?

Larry Glasscock - WellPoint - Chairman, President & CEO

Yes.

Operator

Tom Carroll, Stifel Nicolaus.

Tom Carroll - Stifel Nicolaus - Analyst

Just a couple of questions on your government business to follow up on the ones that have already been asked. On Medicare Part D, it came in a bit lighter than we expected. Maybe you could make some comments, just operationally as you marketed the business, has anything changed? Are you finding it to be more competitive than you thought? Are auto-assigneds proactively switching away from your products? Maybe, is there any ramp into the May deadline that we should think about?

And then secondly on Medicaid, you have been active there recently. Does this imply that you view this business and state expansions more positively than you did in the past? Maybe just touch on your Medicaid strategy over the next 12 to 24 months as well. Thanks.

Larry Glasscock - WellPoint - Chairman, President & CEO

Tom, let me have Susan Rawlings who runs our Senior business and obviously is involved in Part D day to day cover your first question. And Joan Herman is here as well who runs all of our State-Sponsored business, so I will ask Joan to take the second. But Susan, do you want to take the first question?

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Susan Rawlings - WellPoint - President, Senior Services

Larry, thank you. I think I guess from our perspective we actually are coming in very close to and even exceeded quite a bit during the first quarter what we expected. We still have a very robust offering, and it is very well-received in the marketplace. We have, as you know, a very competitive environment and a very active first quarter, but we are pretty much exactly where we thought we would be.

Our members are liking really all of our products we are offering, and I think the choice and the affordable choice is really that we have offered has enabled us to be successful. We do expect that to continue through the remainder of the year.

With regard to the May 15 deadline, we are seeing our numbers pick up. I think we again have planned for it and expect us to achieve the membership in excess of 1.5 million by the end of the year.

Joan Herman - WellPoint - President & CEO, Specialty, Senior & State-Sponsored

Okay. This is Joan Herman. On the Medicaid business, I would say our strategy really has not changed. We have always looked at the Medicaid business as one where in the right location, the right states under the right circumstances given our expertise, we think we can do that business very well.

We have always looked at other states. The conditions have to be correct in terms of both we think that state will be a good partner as to how they look at the Medicaid business over the long-haul, how the pricing situation works out and so on, because we want to do it in a way that is good for the members, good for the government and good for our shareholders.

Medicaid business has the procurement cycles, and when business is up for bid, it varies a lot. I think what has happened is in the recent times is that we have had a number of what we think are good opportunities for us given the kinds of things we look at, come up in a number of states, and so the timing is really just the way the procurement cycle has played out.

So we always are looking and we always are trying to work with states to shape programs that we think will be good for them and good for us. But again, when the actual procurement cycles and bid cycles come up, it varies because these are often long-term contracts. I think some of the state pressures the states are feeling under Medicaid budgets have made them go back and look again at their Medicaid program, and in certain cases that is making them do more expansion to managed care, and that has I think driven some of the reason we have got this sort of more opportunity seemingly coming up in the last year or so than maybe there had been earlier in the decade. But I think it is just a matter of how that plays out.

So we have always looked at it, and we will continue to look at it as if we think this is a state where we can be a good partner for them and they will be for us and we can do a good job for both the members and the shareholders, we will look to bid on that and pursue it.

Dave Colby - WellPoint - CFO

This is not a new area for us. We have been in this business and been a very large player for many years because this is a program that is really a win-win-win. States save money by moving beneficiaries to managed care. It is a profitable business for us to pick up, and the beneficiary in just about any quality measure you want to look at, from immunization rates or HEDIS type stuff, improves to that population as care is managed. So we think it's a good program and one that will keep building, particularly as more states look for ways to save money on the Medicaid budgets.

Operator

Charles Boorady, Citigroup.

Charles Boorady - Citigroup - Analyst

Questions on Medicare enrollment. First, on the MedSupp, AARP talked about an increase in their MedSupp lives as a result of the rollout of Part D. I'm just confused as to sort of what is going on in the industry and if you have a sense for what the total industry MedSupp enrollment is doing?

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Is the industry actually growing but marketshare is shifting to AARP and maybe others, or do you think the industry is actually shrinking for MedSup right now?

Susan Rawlings - WellPoint - President, Senior Services

This is Susan Rawlings speaking again. I will take a first pass and look to my colleagues for some additional comments.

I think that the Medicare Supplement business is actually one that appeals to a good deal of customers around the country and I think continues to appeal to those customers. We have seen in our Medicare Supplement business in the programs that do not have drugs -those programs actually increased in the quarter by about 50,000 members. A good number of those were folks that were coming off of our MedSup business with drugs, so they are switching products in the Medicare supplement business.

We are continuing to see growth. We are continuing to see shifts. I think it is moderating somewhat given the compelling value to many people of Medicare Advantage. But we do believe it's a significant part of our long-term portfolio, and it enables us to maintain some balance over time, not only for the Company but more specifically for our customers.

Joan Herman - WellPoint - President & CEO, Specialty, Senior & State-Sponsored

The one thing we would say, and this has historically been true, is that the mix between Medicare Advantage and MedSup does tend to shift over time depending on the relative attractiveness of the MedAdvantage product. So obviously right now the conditions are pretty favorable for MedAdvantage. So of sales to seniors, I think there is some shifting going on where more is going to MedAdvantage, and that does wax and wane over time. We have seen that before. But MedSup is still an important product that a lot of seniors want and prefer, and we would expect that to continue to be the case in the future.

Charles Boorady - Citigroup - Analyst

Any change to your full-year estimate on Medicare Advantage enrollment growth?

Larry Glasscock - WellPoint - Chairman, President & CEO

No.

Charles Boorady - Citigroup - Analyst

Okay. So you are on track for that? Would you be able to walk through just on Part D if you just isolated a Part D stand-alone what the contribution is to earnings in the four quarters of this year and what you get as the total?

Dave Colby - WellPoint - CFO

Again, we don't really want to get into product line profitability. As we told you, we expect Part D to be profitable for the year and that the margins in that business would be comparable to other government businesses, which is slightly less than our corporate average.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - Morgan Stanley - Analyst

I'm trying to isolate out kind of what happened kind of ex- WellChoice on a stand-alone basis in the quarter. Can you give me a sense -- I have seen WellChoice's '05 restated first-quarter revenue -- can you give me a sense for the first-quarter '06 WellChoice revenue and MLR?

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Dave Colby - WellPoint - CFO

It is again hard to break out. I don't have that immediately available, but it is fairly consistent with the growth that was expected at WellChoice. If anything, WellChoice is running slightly positive to our expectations.

Christine Arnold - Morgan Stanley - Analyst

Okay.

Dave Colby - WellPoint - CFO

We have it so integrated into the East region now, it really is hard to break it out.

Christine Arnold - Morgan Stanley - Analyst

Okay. City/State was added this quarter. Can you give me a sense for the revenue MLR just on that, and if not, was the MLR on that PBM above or below the 93 that we generally assumed?

Dave Colby - WellPoint - CFO

For the Prescription Drug Program?

Christine Arnold - Morgan Stanley - Analyst

Yes, it is just so much revenue that it can muck up the works here.

Dave Colby - WellPoint - CFO

It is a big program, and it certainly has an MLR greater than our average.

Christine Arnold - Morgan Stanley - Analyst

Okay. That leaves a lot of space. Is 93 in the ballpark?

Dave Colby - WellPoint - CFO

It could be just a little bit high but --

Christine Arnold - Morgan Stanley - Analyst

Okay, that is helpful.

Dave Colby - WellPoint - CFO

It is probably in the ballpark.

Christine Arnold - Morgan Stanley - Analyst

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Was there any change in how you recognize revenue for City/State versus how WellChoice thought they would because that could account for some revenue issues?

Dave Colby - WellPoint - CFO

We have in the press release in the reconciliations any adjustments that were made to either the old WellPoint, Inc. or WellChoice. I don't think any of that had anything to do with the state or city accounts.

Operator

Michael Baker, Raymond James.

Michael Baker - Raymond James - Analyst

Given your early read on the selling season, are you seeing any change in clients' willingness to move to more of a one-stop shop? In other words, opportunity to roll in additional services such as the PBM or behavioral?

Larry Glasscock - WellPoint - Chairman, President & CEO

Well, I think we are seeing what we have seen in the past, and that is a lot of interest in what we have across the entire spectrum of products. So I would not say I see any appreciable difference from where we have been in the past.

Dave Colby - WellPoint - CFO

I think the companies that value the more one-stop shop are the smaller ones, and those come out more evenly throughout the year.

Operator

Doug Simpson, Merrill Lynch.

Doug Simpson - Merrill Lynch - Analyst

I just wanted to walk through, Dave, you guys bought in almost \$2 billion in stock year-to-date, and debt to cap really did not move to much. It was like 80 or 100 Bps. You have another billion coming and something like another 2 billion plus in cash flow. Could you just walk us through, what is your target debt to cap, and then also maybe just update us on your thoughts regarding a dividend?

Dave Colby - WellPoint - CFO

I would be happy to. We have stated that our targeted debt to cap is in the mid 20% range, and we do have obviously some room there. Obviously looking at share repurchases to consume that has to be balanced with the other opportunities that we have to grow the business and invest in potential transactions. I do think that we're not done with consolidation in this industry at all. That will continue to go forward, and we need to make sure that we have the financial flexibility to do that.

Again, in terms of dividend, it is something that our Board looks at almost routinely. So far when we have looked at that discussion, given the current share price, the Board has felt that a better way to return money to shareholders to improve shareholder value is through increasing our share buyback, which they did in March by another \$1 billion rather than a dividend. But that is something that is constantly looked at and constantly evaluated based on our financial performance and the price of the stock.

Operator

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Joseph France, Banc of America Securities.

Joseph France - Banc of America Securities - Analyst

Thank you, David. I just had two quick questions. One is what is free cash at the parent? And second, I thought your earlier guidance for SG&A of 15.7 included 30 basis points from stock options. I just wanted to understand the increase from 15.7 to 16 in your guidance.

Dave Colby - WellPoint - CFO

Yes, the increase that is in there right now is primarily associated with the mix of more ASO business than fully insured. That runs, as you know, a significantly higher SG&A ratio. Plus the fact that we are performing ahead of plan and there is some additional incentive compensation in there. But the majority is really the mix of business.

To answer your other question, at March 31 we did have \$1.7 billion of cash at the parent.

Operator

Carl McDonald, CIBC World Markets.

Carl McDonald - CIBC World Markets - Analyst

It looks like in the full-year guidance the medical loss ratio is 60 basis points lower than you had previously guided to. Can you walk through the factors there in terms of how much of that is a more optimistic view on the spread between pricing and cost trends, how much is the mix shift, potentially more coming from some of the State-Sponsored business than commercial and any other factors?

Dave Colby - WellPoint - CFO

It is a combination of factors, and I don't have a breakdown of what has driven it. But it is a factor of we are looking at pretty good growth coming forward in our Individual and Small Group business as we roll some products out. That is obviously lower loss ratio business, particularly in the early underwriting years. The factor that Larry talked about where we had about 35 cases with a lapse that had a 430 basis point higher loss ratio than our average, that brings the average down just by having those higher loss ratio cases lapse. It does not really impact the pricing trend. Because right now, as we said, we feel very comfortable on our estimates for trend and pricing. I don't think much of the variance is there right now.

Carl McDonald - CIBC World Markets - Analyst

Okay. It sounds like inpatient volumes might have come in better than expected, but the overall cost trend guidance was the same. Was there something that offset that, or are you just taking a conservative stance at this point?

Dave Colby - WellPoint - CFO

The inpatient utilization continued to be relatively flat. Although the mathematical numbers may be down slightly in one quarter, it is hardly a trend average. So I would not really read too much into that. Our inpatient trend in terms of admissions per 1000 days per 1000 have been remarkably flat. Our trend in inpatient care has been remarkably flat. But I think it was last quarter was the first quarter, where we used to be concerned about outpatient and pharmacy, and then the two highest became outpatient and inpatient. Mainly not because inpatient had gone up, but because we have gotten pharmacy trend more under control. Inpatient now jumps to number two.

Operator

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Ed Kroll, Cowen & Co.

Ed Kroll - Cowen & Co. - Analyst

Can you tell us on the \$0.10 increase in the earnings guidance, just simply where that comes from in terms of operating income, investment income, share buyback?

Dave Colby - WellPoint - CFO

Yes, as I think I answered on one of the other questions, if you look at getting the \$2 billion share buyback done much sooner than we had expected, adding the additional third billion dollars, put those together, it was about \$0.05.

The other \$0.05 is our cash flow has been very strong. Interest rates are slightly higher. So we are going to see a little bit more investment income than guidance going forward. Again, slightly lower amortization expense. It shows up, but actually some of it is in depreciation expense in the G&A line. So there is a little bit on sort of the operating gain line, but most of it is because of investment income and the share buyback.

Ed Kroll - Cowen & Co. - Analyst

Okay. Then just a quick follow-up. The mix shift to self-funded that you're experiencing in your commercial book, it would seem to me that a positive associated with that would be that the self-funded ties up less capital or requires less capital and that you should experience higher free cash flow yields as that shift occurs. Am I correct in viewing it that way?

Dave Colby - WellPoint - CFO

You are certainly correct in that sense in that it does not have any risk-based capital or capital surplus requirements associated with it. Certainly it runs a higher overall margin. But it is a lower premium, and on a per member per month basis, we do make less money. But the bottom line is we have got to meet our customer needs. I think we had in the first quarter something like 64,000 lives that move from fully insured to ASO, and we kept those accounts. That is the important part - that what the customer wants, we deliver a product that meets their needs.

Operator

Justin Lake, UBS.

Justin Lake - UBS - Analyst

Just to complete the guidance questions, the revenue number there looks like it's about 700 million lighter. I know you have talked about this just from commercial risk to ASO. Is there anything else in there that we should be looking at?

Dave Colby - WellPoint - CFO

I think you will see the accounting for minimum premium is a big number because that does move some -- takes out some premium revenue and some cost with it. It also does wind up slightly, improving the medical benefit ratio. We have a little bit of the move from, again, more ASO in the membership that does it. But I think the guidance that we have just given, we will meet.

Justin Lake - UBS - Analyst

So the move from minimum premium I guess if I look at the schedules in the back of the release might be 600 million. So probably it looks like it represents pretty much all of it?

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Dave Colby - WellPoint - CFO

It is the largest -- by far, the largest component of it.

Operator

Matt Perry, Wachovia Securities.

Matt Perry - Wachovia Securities - Analyst

Just a couple of follow-ups. One, does your current guidance imply any share repurchases in the second half of the year, or does it all get done in the first half? Do you foresee going back to the board and getting that increased again?

And secondly, in your press release, you mentioned improved contracting in the PBM business. Could you just give a little color on that?

Dave Colby - WellPoint - CFO

Let me try. First, the guidance assumes just the \$3 billion of share buybacks done by the end of the second quarter. I don't want to get ahead of our Board who makes the ultimate decision on how to deploy additional capital, but I'm sure we may have additional discussions on the second half of the year depending on what the acquisition pipeline looks at. Are there more transactions like WellChoice that we think will be very attractive acquisitions for us that also use cash? We also want to make sure everything is going smoothly with all of our operations, so I don't want to get ahead of the board.

When I talk about the better contracting, that is one of the synergies from our merger and our growth as we combined the Legacy Anthem and the Legacy WellPoint PBMs. As we get into specialty distribution and start having more purchasing power for drugs, we tend to get better rates.

Joan Herman - WellPoint - President & CEO, Specialty, Senior & State-Sponsored

This is Joan Herman. Yes, as part of the integration we have on the PBM side, we looked at all our contracts from network contracts to our contracts with the pharmaceutical manufacturers to wholesaler agreements for our mail-order and specialty pharmacy fulfillment centers. So all those things were relooked at, and again this is an industry where it is a business where scale is valued and helpful. So that has produced synergies for us.

Operator

Thank you. Now I would like to turn the conference back over to Larry Glasscock with the Company's closing comments. Please go ahead.

Larry Glasscock - WellPoint - Chairman, President & CEO

Thank you, operator, and again, we're very pleased with this first quarter. We think it is very strong.

Also, I want to just acknowledge one other very important aspect in our business. That is many of you have probably seen, because we did a release around this, that we have been included in this year's DiversityInc.'s list of the Top 50 Companies for Diversity. We apply diversity management to every aspect of our business from, as you would expect, recruiting new associates to selecting suppliers to developing new products that meet the health care needs of the very unique markets we serve. We believe that this really differentiates us in the marketplace and as an employer of choice.

So again, I'm very honored for our Company to have received this award, and I want to thank each and every one of our over 40,000 associates whose focus on innovation and really hard work has led to this award and our recognition.

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Again, I want to thank each and every one of you on the line for your interest, for the very good questions this morning, and hope all of you have a great day.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay starting today, Wednesday, April 26 at 1:45 PM Eastern time, and it will be available through Wednesday, May 10 at midnight Eastern time. You may access the AT&T Executive Playback Service by dialing 1-800-475-6701 from within the United States or Canada, or from outside the U.S. or Canada, please dial 320-365-3844 and then enter the access code of 822441. (Repeats numbers).

That does conclude our conference for today. Thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.

Editor

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