FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen thank you for standing by and welcome to the WellPoint second quarter results conference call. At this time, all lines are in a listen-only mode. Later there will be a question and answer session. Instructions will be given at that time.

(OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. I would now like to turn the conference over to the Company's management.

Michael Kleinman - *WellPoint, Inc. - IR*

Good morning and welcome to WellPoint's second quarter earnings conference call. I am Michael Kleinman, Staff Vice President of Investor Relations. With me this morning are Angela Braly, our President and Chief Executive Officer; and Wayne DeVeydt, Executive Vice President and Chief Financial Officer. Angela will begin this morning's call with an overview of our second quarter accomplishments, Wayne will then offer a detailed review of our second order financial performance and current guidance which will be followed by a question and answer session.

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. I will now turn the call over to Angela Braly.

Angela Braly - *WellPoint, Inc. - President, CEO*

Good morning, and thank you, Michael. We are very pleased to report a quarter of record earnings per share. In the second quarter, WellPoint reported net income of $1.35 per diluted share, up 15.4% year-over-year. We have met or exceeded our EPS guidance every quarter since our IPO in 2001.

As a reminder, net income in the second quarter of 2006 was $1.17 per diluted share, which included $0.01 per share in net realized investment losses.

Operating revenue exceeded $15 billion for the first time in WellPoint's history, a 7.5% increase year-over-year. Revenue increases were driven by disciplined pricing in Local Group, growth in State-sponsored and Senior business and increased reimbursement in the Federal Employee Program.

As expected, our benefit expense ratio improved significantly from the first quarter of 2007. The ratio decreased by 130 basis points to 81.8%. We have remained disciplined in our underwriting and we will not trade margin for membership.

Medical enrollment totaled 34.8 million members at June 30, 2007, an increase of 604,000 members from 34.2 million reported at June 30, 2006. The increase was driven by our National business, which added 477,000 members and our State Sponsored business, which grew by 364,000 members. Growth from the prior year in State Sponsored business excludes the impact of the change in our 50% ownership interest in a joint venture in Puerto Rico to a smaller percentage ownership in the joint venture's parent company. Accordingly, we no longer include the 220,000 members related to this investment in our reported enrollment. This growth was partially offset by small declines in Individual and Local Group business.

Although our year-over-year growth has been strong, our overall enrollment was down sequentially in the second quarter. In total, our enrollment declined by 108,000 members due to in-group declines in our National Accounts Control business, BlueCard, competitive pressures in some of our individual markets and attrition in our non-Blue branded business.

Our National Accounts business experienced unusually high in-group declines in the quarter as we were impacted by employee reductions in various industries, including automobile, home building, mortgages and related sectors. Our reported BlueCard membership also declined sequentially. BlueCard membership is estimated in part by the level of BlueCard claims that we process in a given period, and the lower claims volume in the second quarter resulted in lower BlueCard membership. We expect both our National Accounts Control and BlueCard businesses to grow in the second half of this year.

Our individual membership declined by 24,000 members as rate increases were implemented in certain geographies and a few competitors entered the individual business in some of our markets. Overall, pricing remains rational.

As the plan with the largest market share in 13 of our 14 Blue states, we have the broadest network and deep discounts and we have a very competitive administrative cost structure. The Individual business also requires very specific underwriting expertise. As a result, in the past we've seen carriers enter and leave the Individual business market and in selected markets, we're seeing this again. Local Group enrollment was essentially flat as growth in our Blue branded business was offset by membership losses in our non-Blue branded businesses. While network arrangements are typically less advantageous than in our Blue service areas, we're working to address the competitive issues facing our non-Blue branded businesses.

In our Local Group business, the benefit expense ratio for the lapsed groups was more than 400 basis points higher than for the groups we renewed, so we are retaining higher margin business.

State Sponsored enrollment increased by 31,000 members during the quarter and growth in this segment is expected to continue as the states expand their Medicaid managed care programs. The 2008 National Account selling season is well underway. Customers continue to seek methods to more effectively manage health care costs. Carrier selection is determined by an overall value proposition which consists of network breadth, discount advantage, consumer programs and an increased focus on health improvement, lifestyle management and wellness. We continue to be well positioned in each of these areas. The National Account market remains competitive but rational and we expect solid membership growth again in 2008.

Both the number of groups we're bidding on and the size of the groups are similar to the 2007 selling season. We already have several account wins to our credit and the next two months will be very active. We will of course provide a more in-depth update on our third-quarter call.

Our new Lumenos products are also continuing to do well. We now have over 1.2 million consumer-directed health plan members, an increase of 60% over the past 12 months. In Colorado, Ohio, Indiana, Connecticut and New Hampshire, these products represent between 20% and 25% of new individual sales. There are also a number of initiatives underway to stimulate our commercial membership growth. We've recently expanded our captive sales model, a successful lower-cost distribution channel for our Individual business and we've taken it to three states where we are planning additional expansion.

We have also launched an Agents Sales Accelerator Program in Missouri, Wisconsin and Georgia. This program is a partnership between WellPoint and brokers to help the brokers build their Individual business. We're also developing a new unit to focus on Taft-Hartley business which will create a significant opportunity for us to grow membership in 2008. This is a market where we expect to see additional sales.

During the quarter in our Specialty business we launched Dental Blue, our new innovative dental product in California. We also launched our enhanced Dental Blue cost estimator which is an online tool that allows Dental Blue members to estimate their out of pocket expenses for common procedures such as cleaning, billings and periodontal treatment. For both our specialty and medical business, we will remain disciplined in our pricing. While we expect our membership to grow, we will not sacrifice margins for volume and this will be evident in our benefit expense ratio.

I would now like to take a few minutes to discuss the benefit expense ratio as it relates our State Sponsored business, specifically California and Connecticut. The benefit expense ratio in State Sponsored business increased by 440 basis points between the second quarters of 2006 and 2007, with California and Connecticut experiencing the largest increases. California continues to be problematic and we have recently seen increasing trend in maternity cases and surgical utilization. In both California and Connecticut, we've implemented numerous cost of care initiatives to improve financial performance in these geographies. We are seeing positive results from these initiatives and coupled with expected seasonal patterns, the benefit expense ratio for our State Sponsored business declined from the first quarter of 2007 by 250 basis points. We expect to receive a rate increase in Connecticut retroactive to July 1, 2007. Rate negotiations could not begin in earnest until the state budget was approved in late June and the negotiations have been and continue to proceed with Connecticut. We expect to resolve these negotiations in the next several weeks.

In California we are pleased to see that the Governor proposed $107 million in additional Medi-Cal funding that will be matched dollar for dollar by the federal government. This additional funding for the Medi-Cal program is included in the California budgetary process currently before the Legislature. Once the budget is passed, which we expect to occur in the near-term, we expect the state to offer us increased rates for the new contract year.

In addition to the budget, the California legislature is currently debating health care reform. A goal of these efforts is that up to an estimated 6 million uninsureds would be covered through a combination of Medi-Cal expansion and Individual and Small Group coverage. WellPoint is the largest provider of Medi-Cal Individual and Small Group business in California and if we were to just get our market share of 25% to 30% of this business, we could see significant new membership. We believe that these reforms must be done in a responsible way that does not damage, jeopardize or increase costs for California consumers. We are continuing to work with both the Governor and the Legislature to identify and resolve these issues and are hopeful they can be satisfactorily addressed in a way that will be beneficial for California consumers.

We continue to support responsible health care reform that fixes what is broken without breaking what works. We know that America's health care system has some very real problems that we cannot ignore and they are not going to fix themselves, but our health care system also as many strengths that are the envy of the rest of the world. America's private health care system provides a variety of health care choices and it promotes competition. This is good for our country and it keeps us working on continuing to deliver better, more innovative products and services to our members, while also improving our operational efficiency.

While we continue to grow our top line organically, we also continue to look for acquisitions that make sense both financially and strategically. This quarter, we announced the acquisition of American Imaging Management, or AIM, a leading radiology benefit management and technology company. AIM technology helps physicians and their patients choose the highest quality, most cost-effective sites for diagnostic imaging services. They have proven technologies and capabilities that can be expanded to improve health care quality and help optimize cost in other key areas, such as orthopedics, cardiology, lab services and specialty pharmacy. AIM currently provides services to WellPoint as well as to other customers nationwide, including eight other Blue plans.

I will now turn the call over to Wayne DeVeydt who will discuss our second quarter financial statements, medical cost trends and provide guidance for the rest of the year in more detail. Wayne?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Thank you, Angela, and good morning to all of you that joined us this morning on the call. We're very pleased with our financial results this quarter and in meeting our guidance of $1.35 in earnings per share. Premium revenue was $13.9 billion in the second quarter of '07, an increase of $1 billion, or 7.9% over 2006 due to disciplined pricing in our Local Group, growth in State Sponsored and Senior business and increased reimbursement in the Federal Employee Program. Our administrative fees were $924 million in the second quarter of '07, an increase of $27 million, or 3% over 2Q of '06 due primarily to growth in our Local Group and National Accounts business. Our self-funded membership increased by 445,000 members, or 2.6%.

The benefit expense ratio is probably the most closely watched ratio on our financial statements, and I know this is one that many of you will have questions on. While Angela has discussed the change in our benefit expense ratio year-over-year, I want to spend a few minutes discussing our benefit expense ratio sequentially and provide guidance for the rest of the year.

The benefit expense ratio declined by 130 basis points from 83.1% of the first quarter of 2007 to 81.8% in the second quarter. Second quarter results included an improved benefit expense ratio for our Commercial and Consumer business and Senior products. We expect our Medicare Part D benefit expense ratio to decline in both the third and fourth quarters of 2007 as more members will reach the "doughnut hole" in coverage. As a reminder, we do not smooth the seasonality of Medicare Part D business. We understand that this product simply has a seasonality pattern such that in early quarters of the year the benefit expense ratio is higher and the later quarters of the year we have a lower benefit expense ratio. We expect our Commercial and Consumer business benefit expense ratio to increase in both the third and fourth quarters. This is the normal annual pattern since most of this business is subject to a deductible. As we go through the year, more people have met the deductible, thus increasing the benefit expense ratio.

Finally, we expect continued improvement in our State Sponsored business in the third and fourth quarters. As Angela did note, we anticipate a rate increase in Connecticut to be retroactive to July 1 and new rates in California effective October 1. As a reminder, our guidance assumes a July 1 rate increase in Connecticut and an October 1 rate increase in California.

For the full-year we continue to expect the benefit expense ratio to be 81.9%, consistent with our previous guidance. We expect the third quarter to be slightly lower than the fourth quarter. Based upon medical cost trends in the second quarter, we continue to believe that our 2007 medical cost trend estimate of less than 8% is appropriate. We continue to price our commercial business so that expected premium yield exceeds total cost trend where total cost trend includes medical cost and selling, general and administrative expenses. I want to remind everyone, we remain very disciplined in our underwriting approach and we do not chase business that we believe is priced below our profitability targets.

In terms of medical trend, outpatient and inpatient services continue to drive our medical trend increase. Inpatient trend is in the mid to upper single digits and is related to unit cost increases, as utilization has been flat. Almost 90% of inpatient claim costs are from facilities contracted using a case rate or per diem methodology. As we are generally able to obtain multiyear hospital agreements we have very good visibility on unit costs. Our outpatient service trend is in the upper single digit range and almost all unit cost driven.

Emergency room costs remain a significant outpatient trend driver throughout the Company. We have seen some improvement in ER trends in recent periods due in part to increased cost sharing. Radiology management programs also continue to favorably impact trend. However, in places where they have been in effect for more than a year, their impact does repeat but is not repeated incrementally.

As Angela mentioned, we recently announced that we've entered into an agreement to acquire American Imaging Management, a leading radiology benefit management and technology company. Incorporating these technologies will allow us to achieve even greater efficiencies in this high trend area while ensuring that consumers receive the tests they need. Our physician trend is in the mid single digit range and is driven 60% by cost and 40% by utilization. And then, finally, our pharmacy trend is in the upper single digit range and is 70% unit cost and 30% utilization driven.

During the second quarter, HealthCore, our health outcomes research subsidiary, presented a study showing that expanded use of generic statins can provide equal cardiovascular benefits when compared to brand name statins for the majority of patients being treated for high cholesterol while also offering substantial cost savings. Generic dispensing increases and new drugs going generic are helping to moderate our drug trend. However, for some drugs, like Norvasc used to treat hypertension, we have to wait for the exclusive generic period to end until we recognize lower medical cost. Norvasc has an exclusivity period that will continue until the start of the fourth quarter.

I want to spend a few minutes now talking about our SG&A. When we look at our SG&A ratio, it was 15.1% in the second quarter of 2007, a decrease of 60 basis points from 15.7% in the second quarter of 2006. The ratio improved year-over-year as we continue to control spending and spread administrative expenses across a growing revenue base. The SG&A expense ratio increased 70 basis points from the first quarter of 2007 as we made up for the discretionary spending that had been postponed in the first quarter. We have a number of programs underway where we are investing today to reduce future SG&A expense.

One example is our claims system migration where we are in the process of eliminating three claims platforms this year using our low risk migration strategy. We're also making investments to optimize our customer service call centers to provide better service at a lower cost. We continue to expect that we can lower our SG&A ratio by 150 to 200 basis points over the next three to five years.

Our net investment income was $253 million in the second quarter and increased $35 million or 16% from the second quarter of '06 due to our strong cash flow and higher short-term interest rates. Our effective tax rate fell to 36.6% in the second quarter from 37.2% in the first quarter as a result of numerous tax planning strategies. We believe the lower rate is sustainable and now expect our full-year effective tax rate to be 36.8%.

Turning to our reportable segments, Commercial and Consumer Business, or "CCB," operating revenue in the second quarter was $10.5 billion, an increase of $368 million, or 3.6% from 2Q of '06. This was really led by disciplined pricing. Operating gain for the CCB segment was $1 billion in the second quarter of 2007, an increase of 11.9% compared to $900 million in the second quarter of 2006. Improved performance in the CCB segment resulted from disciplined pricing and the timing of prior period development in 2006. Our financial results demonstrate our commitment to pricing with discipline.

I want to spend a few minutes now talking about our Specialty, Senior, and State Sponsored business, or what we refer to as "4SB". Operating revenue in the second quarter of '07 was $3.4 billion, an increase of $562 million, or 19.8% from 2Q of '06 due to growth in State Sponsored and Medicare Advantage businesses. Operating gain for the 4SB segment totaled $213 million in the second quarter of 2007, a decrease of 25.9% compared to $287 million in the second quarter of 2006. This decrease from the prior year is really due to two very specific items. One, as Angela has mentioned, we've incurred higher State Sponsored medical claims experience in California and Connecticut, but as noted earlier, we do expect rate increases and other actions to correct these programs this year. Two is our Life and Disability lines of business had a favorable impact of a change in experience factors for waiver of premium reserves recorded in the second quarter of 2006, that did not recur in 2007.

Other segment operating revenue in the second quarter of '07 was $1.1 billion, an increase of $114 million, or 11.8% from 2Q '06 due to higher reimbursement in the FEP business. Operating gain for the Other segment totaled $7 million in the second quarter of 2007, an increase from the operating loss of $21 million in the second quarter of 2006. This improvement resulted primarily from lower corporate expenses and the nonrecurrence of change in control expenses.

I now what to spend a few minutes on our balance sheet. Our current assets were $15.2 billion at June 30, 2007, an increase of $3.5 billion from year-end 2006 due to increased cash and investments. Total assets were $54.2 billion at June 30, 2007, up $2.6 billion from year end. Our medical claims payable were $5.7 billion at the end of the second quarter, an increase of $413 million from year-end 2006. Our days in claims payable as of June 30, 2007 was 45.5 days, an increase of 0.8 days from 44.7 days as of March 31, and this is really due to a number of factors. First, we saw a 0.6-day increase just due to lower benefit expense per day. We saw a 0.3-day increase due to the timing of medical claim payments, a 0.2-day increase due to increased provider incentive accruals, and then those were offset by a 0.3-day decrease in the timing of our PBM claim payments.

We have included in our press release a reconciliation and roll-forward of our medical claims payable reserves. This disclosure is comparable to the reconciliation provided in our fourth quarter 2006 press release. We report prior-year redundancies in order to demonstrate the adequacy and consistency of prior-year reserves. For the six months ended June 30, 2007, we again had significant positive prior-year reserve development of $356 million. This compares with $557 million for the six months ended June 30, 2006.

As a reminder, the positive development again in 2007 shows we are conservatively and consistently establishing our reserves. The redundancy was higher in 2006 than it was in 2007 due to medical cost trends decelerating in early 2006 and stabilizing in 2007. This was due in part to conservatism at year end 2005. As medical cost trends were decelerating, we were conservative and were slow to fully recognize the impact. This resulted in somewhat higher development in 2006.

Conversely, 2006 seasonality has run out to be slightly less favorable than expected. This created less reported redundancy in 2007 and thereby further impacted the reported redundancy levels between 2006 and 2007. While the actual runout has developed differently, we continue -- and I want to reiterate this -- we continue to establish reserves for medical costs in a consistent and conservative manner.

Long-term debt was $7.7 billion at June 30, 2007, a $1.2 billion increase from year-end 2006 resulting primarily from $1.5 billion in debt that we placed on favorable terms during the second quarter. Our debt-to-equity ratio at June 30 was 24.6%, up from 22.2% at year end 2006, but still slightly below our targeted range. For the six months ended June 30, 2007, operating cash flow totaled $2.7 billion, or 1.7 times net income. As expected, the second quarter operating cash flow of $726 million was lower than the first quarter as the Company made two federal income tax payments during the period totaling $802 million and one additional CMS payment was received during the first quarter of 2007. As a reminder to our shareholders, cash flow from operations in the third quarter of 2007 will be impacted by having only two CMS payments in the quarter. As of June 30, 2007, we had $2.7 billion of cash and investments at the parent holding company.

During the second quarter of 2007, we repurchased 16.2 million shares of common stock for $1.3 billion. Month to date through July 18, 2007 we repurchased an additional 3.8 million shares for $310 million and our remaining Board approved share repurchase authorization is $682 million. We intend to utilize the remaining authorization during 2007 subject to market conditions, and at our current share purchase price, market conditions are very favorable. Consistent with past practices, we will revisit our capital plan with the Board throughout the year.

Turning to our 2007 guidance, we now expect net income of $5.55 per share, representing growth of 15% over 2006. Our year-end medical enrollment is now expected to be approximately 35.1 million members, representing growth for the year of 1 million members, or 3%. Fully insured membership is now expected to be $17.5 million and self-funded membership is now expected to be $17.6 million. Operating revenue is now expected to total approximately $60.5 billion. We continue to expect our benefit expense ratio to be approximately 81.9%.

The SG&A expense ratio is now expected be approximately 14.8% as this metric is impacted by our operating revenue. We continue to expect operating cash flow of $4.4 billion, or 1.3 times net income. Weighted average shares outstanding are expected to be 616.5 million for the full year 2007. The Company continues to expect net income of $1.44 per share in the third quarter of '07.

I will now turn the call over to Angela to lead a question-and-answer session.

Angela Braly - *WellPoint, Inc. - President, CEO*

Thank you, Wayne. Marla, please open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Charles Boorady, Citigroup.

Charles Boorady - *Citigroup - Analyst*

Wayne, your comments of prior period reserve adjustments were very helpful, and implicit in them, I guess I infer that your medical cost trends stopped decelerating at some point in the last several months. So I'm wondering what's implicit in your new MLR expectations looking forward. Are you assuming that medical trends remain flat, or that they continue on the long path of deceleration that they had been on, or that they start to reaccelerate again?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

We expect it to continue to be flat for the remainder of the year at this point. We really saw the deceleration start to flatten out in 2006 and we continue to see that trend into 2007 and expect that for the full year.

Charles Boorady - *Citigroup - Analyst*

So your pricing assumes that it stays flat?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Yes.

Charles Boorady - *Citigroup - Analyst*

Okay, great. And just a follow-up. You mentioned the proposals in California for universal coverage. Wisconsin is another state that is talking about ways to reform health care, more radical than California plans. And so I recognize the chances of passage are not great, but I'm wondering, how big is Wisconsin for you as a percent of your GAAP earnings? And do you have any expectations for how the medical reform initiatives might play out?

Angela Braly - *WellPoint, Inc. - President, CEO*

Let me speak to that, Charles. We, of course are engaged in participating in the discussion in Wisconsin and in a number of other states about responsible reform, and we think we add great value thereby bringing information and data that we have around actuarial fundamentals. Our market share in Wisconsin is lower than in most of our Blue states, but we're obviously very engaged and will understand the implications of any kind of reform that might come there. I think you said it right -- this is early and a lot of the commentary around Wisconsin is that the proposals are just not affordable.

Operator

Josh Raskin, Lehman Brothers.

Josh Raskin - *Lehman Brothers - Analyst*

Just a question on the membership, I guess it's twofold. One, could you give us a sense of the historical impact of in-group changes, maybe what you saw in the first quarter and what you saw in '06 versus a quantification of what we saw in the second quarter of '07 as well? Secondarily on the Individual and Small Group businesses, you mentioned some of those local rate increases that you put through. My understanding is you guys have put through an April and May Individual rate increase and then the Small group rate increases I know happened in California ever year for a very long time. So I'm just sort of trying to reconcile that with the expected membership and how come the membership came in a little bit below on the ISG side?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Let me take your first question which is around some of in-group change that we saw. Obviously in our Control business, our National Account business, we saw significant declines, much more than we typically see at this time of year. I think a year ago we saw in some of the auto business some changes, and we continue to see that. We had more than 45,000 in-group losses came from the auto, homebuilding, and mortgage sectors; compare that to 21,000 we've seen in the past. So I think it's fair to say that it is up and it's up a lot more than what we have historically seen from that perspective. In terms of the membership in California, Angela, you want to address that?

Angela Braly - *WellPoint, Inc. - President, CEO*

You're right, Josh, we have a history of providing these local rate increases. We are seeing a greater impact this year than we have in the past. And as I mentioned, we are seeing some other competitors that are entering this business. As you know, over time, their ability to sustain that pricing isn't there and we are very competitive because we have the network discounts, we have very competitive cost structure, and we have the expertise to do the underwriting. So that's not a sustainable position for these competitors.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Josh, I think it's fair to say though that we have no desire to cut into our margin to grow membership. And I think you will see that when you look at the six months to six months in our commercial business, you will see the margin expansion.

In terms of our membership, we still expect a million members. Of the changes, really about 50,000 members came from State Sponsored, the Senior was about 20,000, and then our Commercial and FEP, which was about 70,000. And then the ASO is 215,000 for the total change of 35,000 members.

Operator

Matthew Borsch, Goldman, Sachs.

Matthew Borsch - *Goldman, Sachs - Analyst*

First question just on the outlook for your share count, 616 million. I'm just trying to look back to see when you updated that outlook last. I know at one point you had said 623 million, although that might have been two quarters ago because the change I guess is worth about maybe a nickel or a little bit more. But again, maybe that was an update you made last quarter but didn't give formal guidance on. Could you clarify that?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Matt, I'd have to follow up. I'm trying to remember when we last gave that. But I want to say that on our fourth quarter '06 call it was the 623 million shares, which is, I think, the last time we gave guidance.

Matthew Borsch - *Goldman, Sachs - Analyst*

Right. Okay that makes sense. And could you give us a new breakdown on what you expect in terms of premium versus fee revenues for the full year?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Yes. In terms of premium revenue, we expect $56 billion, or around $56.2 billion; fee about $3.7, and then Other is about $611.

Operator

John Rex, Bear Stearns.

John Rex - *Bear Stearns - Analyst*

First on Medi-Cal, what kind of rate increase have you built into your outlook in terms of an anticipated a rate increase there in October. What level of rate increase do you need to hit your outlook?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

We are not discussing the rate increase that we're looking for because we're not trying to get this negotiation done in the public. What I will tell you is that our dialogue has been positive. It is reflective of the rates that we need currently and I fully expect that we will come to a satisfactory resolution with the state. But, again, we don't want to bring this to the public in terms of a public negotiation, so we're not discussing the rate increase.

John Rex - *Bear Stearns - Analyst*

In terms of the lower tax rate that you talked to, I think that would give you about $0.02 a share in terms of impact. What is the offset to that?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Yes, John, that's a good question. Let me first talk about the lower tax rate a little bit. One is, we have implemented some tax planning strategies and I would be happy to discuss some of those that I do think will be run rate. However, it's also important to recognize that the tax rate would have been higher had we had the profitability in the Medi-Cal programs that we had fully expected. Remember, California is one of the largest state tax environments in the country and it's fair to say that those programs are not only not at a breakeven point, but we were actually in a position where we are no longer profitable on the Medi-Cal program. Had those programs been in effect, essentially the effective rate would have been higher had we gotten the margins we would have expected. So it's important to recognize that some of that rate is being driven by what is happening above the line and I think you have to look at those two together.

Operator

Justin Lake, UBS.

Justin Lake - *UBS - Analyst*

First question is on the MLR. You reiterated the 81.9%. It looks like you're going to have to do something around 81.3 or 81.4 to average in the back half of the year to get there. You mentioned Part D and Medicaid improvements. We also know that the commercial seasonality normally tends to trend the MLR up in the back half of the year. Is 81.3, 81.4 kind of what you're thinking there? And obviously you have to be towards the lower end of that range in the third quarter. So, should we be thinking closer to 81 in the third quarter for an MLR?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

I think it's fair to say that the 81.2 to 81.3 range is the right range for the second and third quarter. Again, the seasonality will play out a little bit different. We do expect third quarter to be less than fourth quarter.

Justin Lake - *UBS - Analyst*

Okay. Is there anything besides Part D and Medicaid that should be improving to offset the normal Commercial seasonality?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

No, I think the Part D is the big driver, though. Remember, last year in 2006, the Part D fourth quarter was a terrible proxy for the fourth quarter this year because of the significant state to payer settlements that everybody was notified on in late December. So I think again, if you're going to do a year-over-year analysis, it's going to be really hard to use last year as a proxy because I fully expect it to be even more favorable this year on the Part D than what we saw in the prior year.

Operator

Bill Georges, JP Morgan.

Bill Georges - *JP Morgan - Analyst*

First question is on membership and I'm just wondering if you could comment around your expectations for growth in the National and BlueCard in the second half of the year. You had mentioned that during the prepared remarks. Is that growth from current levels, I'm assuming? And what gives you confidence that you'll be able to generate growth in the back half?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

We fully expect our ASO to grow by 215,000. I think that's something that we expect for the second half of the year. We do expect some of this be through BlueCard program. In addition, we have started to gain some membership in recent quarters and the Blues that have as well will benefit us indirectly through the BlueCard program. And we do expect to continue to see new sales in our National Control and Local Group ASO business. So we have had some early successes and we expect those to continue.

Operator

Carl McDonald, CIBC World Markets.

Carl McDonald - *CIBC World Markets - Analyst*

First question is on the debt to capital. You mentioned that is below your targeted range. What is the current thinking in terms of that: wait for an acquisition to increase it, or are you considering some other alternatives in terms of more share repurchase to increase the ratio?

Angela Braly - *WellPoint, Inc. - President, CEO*

Carl, we're always looking at our capital plan. We visit with the Board regularly on that. We think our shares are at a great place for repurchases at this point, but we'll continue to visit that both around the repurchases as well as the debt to cap.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

And I think, Carl, it's fair to say that we really think that our debt to cap ought to be most likely in the mid to upper 20s. Right now, we're sitting just slightly below 25%, I think the sweet spot is between 25 and 30. And I think even with that, we can easily lever up in excess of 30 if we needed to do a sizable acquisition with the contemplation that we would over a short period of time, say 12 to 18 months, then bring that ratio back down into the mid to upper 20s. So, again, I think it's fair to say that I would like to see us get there as would Angela over the remainder of the year to be in the mid to upper 20 range.

Operator

Scott Fidel, Deutsche Bank.

Scott Fidel - *Deutsche Bank - Analyst*

Could you talk about your thoughts on early pricing strategy for 2008 and what type of cost trend assumptions you're building into next year pricing? And also, whether there are any specific drivers that we should think about with cost trends for next year that might be different than this year?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Again, medical trend was less than 8% in '06, and similarly, we expect it to be less than 8% in '07. We are currently pricing our business for '08 and we don't want to get into the specifics about our expected cost trends for competitive reasons.

Scott Fidel - *Deutsche Bank - Analyst*

And then also just a follow-up relative to the AIM acquisition. Could you talk about how this might impact your strategy to outsource radiology benefits management to companies such as Magellan, and also whether you're looking to launch a risk-based radiology benefits program?

Angela Braly - *WellPoint, Inc. - President, CEO*

I will speak to that. AIM is really a great capability. Our history there is that we looked at AIM, we looked at others, we looked at building that capability ourselves and really believed that AIM had the market winning capability around radiology management. But importantly, they're really a technology company. So they provide a base for us to consider other kinds of disease management programs that could utilize the capabilities that AIM has. Our intention is to offer AIM to our WellPoint members over time as well as continuing to have AIM service other customers across the country, including other Blue plans. And we will look at both risk and non risk-based capabilities through AIM and through other aspects of our disease management programs and other capabilities around care management.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

And, Scott, we clearly plan to honor our existing contract obligations with other ventures, including Magellan, but we are going to bring that in-house when those contracts are complete.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - *Morgan Stanley - Analyst*

First question is, on '06, you said that the costs developed a little less favorable than you had anticipated. Where did the cost develop less favorably? What category?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

If you look at where we developed less favorably in '06, it's really spread across the board, but if you look at the $200 million delta comparing '06 to our '07 development, of the $200 million delta, about $70 million of that is what I will call experience-rated product. This includes products such as FEP, the risk corridor on our Med Part D as well as our New York City and State contracts. About $70 million of that is stuff that has really no bottom line or very little bottom-line impact, but nonetheless did impact the delta. The other $130 million is really spread kind of evenly across all of our product lines and states, so it's really not any one area specifically.

Christine Arnold - *Morgan Stanley - Analyst*

Okay. And then, you're talking about consolidating your claims systems right now. How much future potential do you have in terms of the savings from consolidating claims systems, let's call it just '08, and other cost savings initiatives that you have identified? If you could quantify them.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Let me first say that this is probably a core competency that we haven't talked about a lot in the past. We've consolidated over 33 claims platforms in just the last eight years. That being said, we still have over 15 claims platforms today. By eliminating three more by the end of the year, we will be down to 12. But when you look down at those 12, we'll have almost 99% of our membership on six of them. So when you look at the opportunity, the opportunity is quite significant in terms of systems. It really provides two opportunities for us. One is, it's not only the cost of maintaining all of these programs and all of the day-to-day "lights on" cost, but it's the fact that when we want to roll out a product right now, we're rolling it out 15 times. We want to be compliant with the HIPPA requirement, so we have to do it 15 times. So in terms of the savings, Christine, I would tell you that we're working on our three-year plan, and Angela and the team will be presenting that soon to the Board. We're going to be starting our '08 plan, but we will be quantifying some of those in greater detail as we go through that process.

Angela Braly - *WellPoint, Inc. - President, CEO*

Christine, I think also what it's going to do for us is allow us to take more innovative products and services and lay them on this very streamlined structure. If we can do it more efficiently, we can have greater speed to market going forward. So despite our desire to have new investment around that, it's going to be more efficient and you're going to see savings overall through our SG&A ratio.

Operator

Tom Carroll, Stifel Nicolaus.

Tom Carroll - *Stifel Nicolaus - Analyst*

My question is also on the Medi-Cal business. Your prepared remarks sound very positive, but we have heard that WellPoint has sent termination notices to several counties in California. I was wondering if you could just comment on this, and is this the normal process that takes place during I guess you would call them negotiations like this? Maybe give us a sense of the enrollment that is involved and perhaps revenue and expense impact, if that's possible. And then a second just quick question is: you comment on a low-risk strategy in terms of consolidating claim platforms. I was wondering if you could talk about that a bit.

Angela Braly - *WellPoint, Inc. - President, CEO*

Let me answer the second one first. The low-risk strategy is, instead of doing a conversion, a one day conversion, we do a migration. As new membership comes on, we put the new membership on the new system; we keep the history and we carry out through a cycle of renewals over the year, putting the new business on the new system. So it has worked very effectively for us. It avoids a big bang issue. We can test throughout the period and improve the migration over the time period. So it really works for us.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Keep in mind that this strategy generally has a two-year window because essentially you have some policies renew at the beginning of the year and some them renew at the end of the year. So it happens over a period of time. And I think as Angela said, this low-risk strategy really helps prevent major blips in customer service; and of course as we have seen with some of our competitors in the past, the big bang theory just does not work.

Angela Braly - *WellPoint, Inc. - President, CEO*

Speaking to your questions about Medi-Cal, as Wayne said earlier, we don't want to really negotiate in the public necessarily. I think it's fair to say that California particularly understands the value of the Medi-Cal program and our involvement there. There are a number of studies and good data that shows that a Medicaid Managed Care member actually does better in terms of the quality of their life and their experience in the health care system. They access more preventative care. They use the emergency room last, and as a result, it is really much more affordable for the state to be in a Medi-Cal Managed Care program.

Operator

Peter Costa, FTN Midwest Securities.

Peter Costa - *FTN Midwest Securities - Analyst*

I was under the impression that the prior period development reserve redundancies contributed about 80 to 90 BPS of the MLR issue in the first quarter. With the MLR deteriorating in Q1 180 BPS and only deteriorating 60 BPS this quarter, even if you take the minimum of the prior period development and sort of double that, assuming you've reclaimed it in this quarter, that should have meant that your MLR should've improved by maybe 30 BPS more, or deterioration should've been 30 BPS less, I should say. Can you explain to me what other thing contributed the 30 BPS of deterioration in your MLR relative to the first quarter?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Keep in mind, our FEP is up quite a bit this year even over our original plan and forecast. So FEP inherently has a significantly higher MLR. But, as you know, it's positive for us. I would love to see FEP grow even more because it contributes favorably to the bottom line. But that would be one of the primary drivers. Other than that, I would say everything is kind of normal and customary. We continue to be consistent; we continue to maintain the same margin for adverse development that we had at 12/31 and at March 31 and plan to we continue to do that.

Operator

Michael Baker, Raymond James.

Michael Baker - *Raymond James - Analyst*

First on the AIM acquisition I was wondering when you expect to see the benefit on the MLR, and also some sense of the degree of magnitude?

Angela Braly - *WellPoint, Inc. - President, CEO*

We do have some of the AIM capabilities currently serving some of our membership, so we believe we see that now in the cost of care and we'll continue to see it have an impact over time. So right now, we're in Indiana, Ohio, Kentucky, Missouri and Wisconsin. And in the first year, the result that we had was a reduction of utilization in the more expensive high-tech imaging by about 20%. So we're going to be rolling that product out, as well as AIM has a new product that they call OptiNet that helps the physician order and it gives them cost and quality information about the providers in a geographic area. So it's a good transparency tool. And of course as we said, the ability to take AIM and apply its technology and some of its innovative products and services to other areas will be helpful as well. So we'll be working on rolling that out over time as well as continuing to serve their other customers.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

And I think it's also important to recognize that AIM will impact trend, which we then consider in our pricing. So we also have responsibility to pass some of these savings onto our customers and that's part of growing our membership.

Operator

Greg Nersessian, Credit Suisse.

Greg Nersessian - *Credit Suisse - Analyst*

Wayne, I know you reiterated the expectation of a flat cost trend going forward, but just reading between the lines, it sounded like you were indicating hospital inpatient trends in mid to upper single digits. I think in the past you said upper single digits. Wondering if I'm reading that correctly. Is there some sort of potential for some decline in that trend? And if you could speak to it in the context of I guess just for the industry-wide anecdotal evidence of perhaps some more contentious negotiations with hospitals broadly across the country?

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Well, again, a lot of our contracts are already negotiated on a multi-year basis, and so we have real good visibility around those costs. We are not seeing increases though in bed days or in overall utilizations per thousand, so when we look at some of this, we're not seeing trends in terms of that. This is all purely cost. Clearly, we want to get the best prices for our members. Clearly if we think certain providers, or in this case, hospitals, are outliers, we will continue to look at this. But our cost per admission is higher due in part to greater intensity of inpatient services, and that is really a function of moving some of the lower intensity inpatient services to an outpatient environment. So I'm not seeing any, what I will call, any unusual trends or anything unexpected there. I think this is pretty much in line with where we would have thought it would have been.

Operator

Lee Cooperman, Omega Advisors.

Lee Cooperman - *Omega Advisors - Analyst*

I was wondering if you could -- it's a multi-part question actually. What is the cash at the holding company at quarter end and the minimum amount of cash needed to run the business? Second, what would you view as your unused debt capacity? Third, in a typical year -- the kind you're forecasting for this year and next year -- in a typical year, what is the dividend paying capacity of the operating companies to the parent company? And then finally, you guys have elected to return all your money to shareholders via a stock repurchase and I'm interpreting that as belief that your stock is undervalued, at least that's your belief. I just want to make sure that we've done enough work to study valuation and to have an understanding that we are doing the right thing on behalf of our shareholders as opposed to resorting to some kind of cash dividend which would be more normal for a company of our size. So it's really a two-part question. The first, just analytically, the questions regarding the structure of the holding company, dividend capacity, etc.; and then the second question, also analytical, but I guess a little philosophy poured in.

Angela Braly - *WellPoint, Inc. - President, CEO*

I will let Wayne talk to you on the more technical question there, but I think it is fair to say that we believe our stock is undervalued and a good buy. And that is why we have implemented the repurchase program and continue to revisit the repurchase program with our Board.

Wayne DeVeydt - *WellPoint, Inc. - EVP, CFO*

Lee, in terms of the first part of your question, we have about $2.7 billion of cash and investments available at the parent company, what I will call generally free cash flow that we have accessibility to. We do have, in the current year, we have $500 million of debt coming due in the latter half of the year. So, obviously, we would want enough at the parent to cover that, as well as some additional amounts for what I will call just ordinary expenditures. But obviously, the cash requirements are substantially less than what we have at the parent today. Again, we think our debt to cap really needs to be more in the 25 to 30% range. So we have the ability to clearly lever up some more there.

In terms of dividend capacity, generally probably the easiest way to look at it is to look at the prior year income of our various statutory subsidiaries and usually we can dividend that up the following year. So that number is about $3.5 billion at we can dividend up each year from that perspective. And then clearly we have the ability to issue more debt if we needed to. So I would agree with your observations and I think, as Angela said on the strategy, quite honestly when I look at just the basics of our operation and the positive cash flow that we've put off as an organization, our cash on cash returns are quite exceptional, and it's hard for me to find a better investment right now than buying ourselves.

Operator

Thank you. I would now like to turn the conference back to Angela Braly with the Company's closing comments.

Angela Braly - *WellPoint, Inc. - President, CEO*

Thank you for all of your questions. Before we close, please save the date of December 11, 2007 for our WellPoint Investor Day to be held again this year at our California Wellbeing Institute in Westlake Village, California. Further details will be forthcoming in the near future.

In summary, we've had a solid first half of 2007 and we expect full-year 2007 to be another good year. Thank you for your interest this morning and have a great day.

Operator

Thank you. Ladies and gentlemen this conference will be available for replay after 1:45 PM Eastern time today until August 8, 2007, at midnight. You may access the AT&T teleconference playback service at any time by dialing 1-800-475-6701 and entering the access code 857270. International participants please dial 1-320-365-3844. (OPERATOR INSTRUCTIONS).

That does conclude our conference for today. Thank you for your participation and for using the AT&T executive teleconference. You may now disconnect.

Editor

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