FINAL TRANSCRIPT

Thomson StreetEvents℠

WLP - Q3 2007 WellPoint, Inc. Earnings Conference Call

Event Date/Time: Oct. 24. 2007 / 8:30AM ET

CORPORATE PARTICIPANTS

Jamie Miller
WellPoint, Inc. - IR, Chief Accounting Officer

Angela Braly
WellPoint, Inc. - President and CEO

Wayne DeVeydt
WellPoint, Inc. - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Matthew Borsch
Goldman, Sachs - Analyst

Charles Boorady
Citigroup - Analyst

Josh Raskin
Lehman Brothers - Analyst

Scott Fidel
Deutsche Bank - Analyst

Bill Georges
J.P. Morgan - Analyst

Christine Arnold
Morgan Stanley - Analyst

Justin Lake
UBS - Analyst

John Rex
Bear Stearns - Analyst

Douglas Simpson
Merrill Lynch - Analyst

Carl McDonald
CIBC World Markets - Analyst

Greg Nersessian
Credit Suisse - Analyst

Michael Baker
Raymond James - Analyst

Brian Wright
Jeffries & Co. - Analyst

Tom Carroll
Stifel Nicolaus - Analyst

Wayne Cooperman
Cobalt Capital - Analyst

PRESENTATION

Operator

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

Jamie Miller - *WellPoint, Inc. - IR, Chief Accounting Officer*

Good morning and welcome to WellPoint's third quarter earnings conference call. I am Jamie Miller, Chief Accounting Officer and executive responsible for investor relations, and with me this morning are Angela Braly, our President 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 third quarter accomplishments, and then Wayne will offer a detailed review of our third quarter 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 and CEO*

Good morning, and thank you Jamie. We're very pleased to report another quarter of record earnings per share. In the third quarter, WellPoint reported net income of $1.45 per diluted share, which included $0.01 in net realized investment gain. These results are in line with our prior guidance and we continue to have met or exceeded our EPS guidance every quarter since our IPO in 2001.

As a reminder, net income in the third quarter of 2006 was $1.29 per diluted share, which included $0.04 per share in tax benefits due to a change in state tax apportionment factors and $0.01 per share in net realized investment gains. Operating revenue was $15 billion in the third quarter of 2007, an increase of $745 million, or 5.2% from the third quarter of 2006. The increase resulted primarily from disciplined pricing in local group business and growth in state-sponsored and Medicare Advantage membership.

Medical enrollment totaled 34.8 million members at September 30, 2007, an increase of 615,000 members from 34.2 million reported at September 30, 2006. The increase was driven by our National Business, which added 511,000 members and our State-Sponsored business, which grew by 336,000 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 parent company. Accordingly, we no longer include the 222,000 members related to this investment in our reported enrollment. This growth was partially offset by a decline in individual business.

Overall, pricing remains rational and we expect even stronger overall membership growth in 2008 with at least 1 million net new members. We have had another excellent National Accounts selling season as employers continue to recognize the superior value proposition we bring to the marketplace. In total, we expect to add more new National Account control members in 2008 than in 2007. We do expect to see some in-group membership decline in mortgage-related and automobile sectors as a result of employee reductions. However, given our strong selling results, our expected net membership growth should still be a little higher for National Account control members than it was in 2007. The timing of our membership additions next year will be somewhat different than in the past as one of our known wins is a group with more than 100,000 members that will be effective July 1, 2008.

National Accounts have been a significant driver of our membership growth for several years and we are pleased that this will continue next year. The national account market remains competitive with rational pricing.

We also expect further membership growth in our State-Sponsored business. From our recently announced strategic alliance with Blue Cross-Blue Shield of South Carolina, we expect to add more than 50,000 Medicaid members in that state. In Indiana, we will be one of three plans that will offer coverage to 140,000 adults who earn too much to qualify for Medicaid but less than twice the federal poverty level. This innovative program is being subsidized by an increase in Indiana's cigarette tax.

On the Commercial side, last month, we announced an agreement with M-Plan, an Indiana-based provider-owned HMO whereby they will endorse us as the insurer of choice for their members and employer groups as they exit the commercial HMO business. M-Plan made a strategic decision to exit the commercial business due to the future investments needed to grow and expand their business. They are recommending Anthem Blue Cross-Blue Shield in Indiana to their current employer groups. M-Plan currently insures about 125,000 lives in its commercial business. We will re-underwrite this business at our rates and will pay M-Plan a commission if the groups purchase an Anthem Blue Cross-Blue Shield benefit plan. While not all of these members will choose an Anthem plan, we currently expect that more than 50,000 will.

We were also recently awarded the New Hampshire state employee account that will add about 39,000 self-funded members in 2008. With these known wins, we're very confident about continued membership growth in 2008.

We also have a number of initiatives designed to further increase our growth. Effective this month, our suite of innovative consumer-driven health products is now available to all individual, small and large group UniCare customers. It's being marketed under the brand name Solaura. We have seen exceptional growth in our Lumenos consumer directed health products in our Blue states. Our CDHP membership at September 30, 2007 was 1.3 million members, a 58% increase in the last 12 months. We expect nice growth in UniCare's Solara product as well.

We're also positioned for additional growth in our senior business in 2008. During the third quarter of 2007, we learned that at least one of our bids was under the benchmark in each region for Medicare Part D. This means we should see continued growth in our Part D membership for 2008 as fewer sponsors will have plans below the benchmark and we will therefore gain some of their auto-assigned members. We're confident that we have appropriately priced our Part D products to match the benefits offered. Since this program's inception, we have priced responsibly to deliver an appropriate financial return while earning and keeping the trust of our consumers. A primary driver of that trust is consistent, affordable and sustainable pricing and product. We are optimistic that our portfolio of Part D products will be attractive and competitive in the marketplace for both auto-assigned and non auto-assigned seniors.

In terms of Medicare Advantage, we're seeing increased interest from employer groups. The City of Columbus, Georgia recently announced that it was switching from a self-insured plan to a Medicare Advantage plan administered by Blue Cross-Blue Shield of Georgia. We think our Medicare Advantage programs offer wonderful value and will continue to grow. As a Company, we not only have the ability to add more business, but we have the expertise and the discipline to do it in a profitable manner.

The benefit expense ratio was 81.8% in the third quarter of 2007, an increase of 50 basis points from 81.3% in the prior-year quarter. The increase was driven by an increase in the Specialty, Senior and State-Sponsored business reporting segment. This increase was partially offset by a reduction in the Commercial and Consumer business benefit expense ratio from the third quarter of 2006, reflecting our commitment to disciplined pricing. The results from our Commercial and Consumer business segment are significant, given that it represents approximately 70% of consolidated operating revenue.

The third quarter of 2007 benefit expense ratio for senior business was higher than anticipated primarily due to the CMS reconciliation of 2006 Medicare Part D claims activity. This process resulted in an amount due to CMS for Medicare Part D risk sharing that was higher than our original projections. Accordingly, we recorded a charge in the third quarter that increased the consolidated benefit expense ratio by approximately 40 basis points. This charge related to claims activity for 2006 and 2007. We're continuing to reconcile the 2006 plan year with CMS to recover amounts that we believe we're entitled to receive.

Higher claims experience in State-Sponsored operations also increased the overall benefit expense ratio from the third quarter of 2006.

I would like to now take a few minutes to discuss the status of Medicaid rates in California and Connecticut. Under new California regulations, the rates need to be actuarially sound with a margin for profit. Earlier this month, we received Medi-Cal rate increases for eight counties in California that averaged 8.3% on a combined basis. We are in active discussions with the state to finalize these terms. We expect to continue to serve our Medi-Cal members in most if not all of our counties. There are two additional counties in California for which we received rate increases early this year that are on a different contract time line. We will separately negotiate rates for these two counties that will be effective January 1, 2008. And in the 11th county, we operate as the subcontractor for the Medi-Cal program. As a result, we are unable to finalize our negotiations with the primary contractor until that primary contractor finalizes its negotiations with the state of California. This process may take a few months to complete.

We're making progress in our Connecticut Medicaid rate negotiations as well. We expect to reach final resolution with the state this quarter and anticipate adequate rate increases to be retroactive to July 1, 2007. In addition to negotiating new rates in California and Connecticut, we continued to increase our cost of care initiatives across our State-Sponsored business. We are moving members from fee for service providers to lower cost capitated medical groups. We are recontracting our networks and creating new pay for performance models to increase quality and lower cost. Some of those strategies include increasing medical management staffing, deploying additional data reporting and increasing the use of analytical tools, such as predictive modeling. Also, we have Medicare Medicaid formularies that offer a higher mix of generics which result in quality care at a lower cost, and we are focusing more efforts on high-risk and high-cost members.

I now want to turn to some of our sustainable advantages and how we are going to use these to successfully compete in the marketplace. I believe that the ultimate managed care winners will be those organizations that can truly manage and optimize medical costs. Blue Cross-Blue Shield plans have the best provider networks in the country with over 95% of the hospitals and 85% of physicians and the deepest discounts available. So we have a very strong base for success. Coupling these networks with award-winning transparency tools will allow our customers to select the most efficient providers and take appropriate responsibility for their health care. We're committed to being a leader in bringing meaningful transparency to the health care system. Transparency is not an end in itself, but is instead a means to build consumer engagement that is essential to positively impacting patient and provider decisions and ultimately health care costs and outcomes. We are expanding our successful care comparison transparency tool into additional markets in Georgia, Maine and New Hampshire later this year.

Earlier this week, many of you saw our announcement about an industry-leading partnership with Zagat Survey to launch a new online survey tool that will allow our members to share their provider experiences with others. Partnering with a trusted brand Zagat Surveys supports our strategy of delivering the most comprehensive information to our members in an accessible easy to understand format and builds on our enterprise-wide transparency strategy to provide our members with data and tools that will help them take a more active role and make more informed decisions in their health and health care spending.

We also recently received a transparency and pharmaceutical purchasing solutions certification from the HR Policy Association, or HRPA. Effective January 1, 2008, the certification enables WellPoint NextRx to offer PBM services to members of the HRPA Pharmaceutical Purchasing Coalition, which is made up of more than 55 of the nation's largest employers.

Now before I turn the call over to Wayne for a detailed financial review of the third quarter, I want to discuss our recently announced changes to the organization and our management team. On October 2, we announced our plans to position our organization for continued growth. The Company will be realigned around two new strategic business units -- a commercial business unit and a consumer business unit. In addition, the new comprehensive health solutions business unit brings together the Company's resources focused on optimizing the quality of health care and the cost of care management. Our IT operations and government services unit remains unchanged. This simplified customer focus structure builds on the strength of our commercial and consumer businesses and will create additional opportunities for cross-selling medical and specialty products. These changes also emphasize our comprehensive approach to improving the quality, transparency and cost of health care for all of our customers. We have very accomplished and experienced leaders for each of these units. Ken Goulet has been appointed

President and CEO of the Commercial Business Unit. Ken has more than 26 years of health insurance industry experience in management, sales, operations, strategy and plan execution. In his previous role, Ken was President of our Company's highly successful National Accounts business. Joan Herman has been appointed President and CEO of the Consumer Business Unit. Joan has nearly 25 years of experience in the health insurance industry and served as President and CEO for WellPoint's Specialty, Senior and State-Sponsored businesses. Joan has announced her plan to retire from WellPoint in mid 2008 and we expect her successor to be in place by that time.

Dijuana Lewis has been appointed President and CEO of the new Comprehensive Health Solutions business unit, which includes provider relations, care and disease management and our pharmacy benefits management company, NextRx, and its specialty pharmacy, PrecisionRx Specialty Solutions. Dijuana has more than 20 years of wide-ranging health insurance industry experience, including 10 years leading cost of care and quality initiatives in multiple states. In her previous role, Dijuana was president of local group business.

We have also hired Brad Fluegel to be our Chief Strategy and Public Affairs Officer. Brad will be responsible for long-term strategic planning, government affairs, corporate communications and WellPoint's strategic social responsibility programs and reports directly to me. He has held a variety of senior consulting and executive leadership roles within the managed care industry, including former vice president of enterprise strategy at Aetna, CEO of Redmond Anders and a principal at Towers Perrin.

Mark Boxer continues in his role as leader of IT operations and government solutions.

During the quarter, we also announced that Dennis Casey will be the President of UniCare. Dennis has 30 years experience, 26 years with our company and is one of the architects of success for our Anthem Blue Cross-Blue Shield plan in Indiana. We have great confidence in Dennis' ability to continue that success for UniCare. UniCare operates in all 50 states and offers a full range of health insurance products, dental, vision, life, disability and student health plans. I am proud and excited to be working with my team as we move into 2008 and I'm confident that we will continue our success.

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

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

Thank you, Angela, and good morning to all of those on the call. We are very pleased with our financial results this quarter of $1.45 in earnings per share that include $0.01 per share in net realized investment gains. Premium revenue was $13.9 billion in the third quarter of '07, an increase of $725 million or 5.5% over the third quarter of '06 due to disciplined pricing in our local group business and growth in State-Sponsored and Senior business. The administrative fees were $912 million in the third quarter of '07, an increase of $21 million or 2.3% over the third quarter of '06 due primarily to growth in our National Accounts business, including Blue Card and Local Group. Self-funded membership increased by 634,000 members and included 86,000 members who switched from our fully-insured plans to self-funded.

As Angela noted, in the third quarter, our benefit expense ratio was 81.8%. For the full year, we now expect the benefit expense ratio to be 82%, slightly higher than our previous guidance due to the CMS Part D reconciliation process for 2006 and related items in 2007.

We continue to price our business so that expected premium yield exceeds total cost trend where total cost trend includes medical cost and selling, general and administrative expenses. We remain very disciplined in our underwriting approach and do not target business that we believe is priced below our profitability targets. Based upon medical cost trends in the third quarter, we continue to believe that our 2007 medical cost trend estimate of less than 8% is appropriate. Inpatient trend is in the mid single-digit range and is almost all related to unit cost increases. Unit cost pressure continues throughout the country. However, due to our recontracting efforts, unit cost trend is slightly lower than it was earlier in the year. Neonatal intensive care unit, or NICU, stays are very expensive and we're expanding our successful initiatives providing clinical management for NICU episodes.

Outpatient services trends is in the upper single-digit range and is all unit-cost driven. Emergency room costs, surgery and radiology continue to be the main drivers of outpatient cost trend. As we implement Phase II of radiology cost management that addresses privileging and network optimization, we expect to favorably impact radiology trend. Virginia recently experienced favorable utilization trend due in part to our radiology initiatives.

Physician trend is in the mid single-digit range and is almost equally driven by cost and utilization. Pharmacy trend is in the upper single-digit range and is two-thirds unit cost and one-third utilization driven. Specialty drug costs continue to increase and we announced last week the opening of our new PrecisionRx specialty solutions pharmacy in Indianapolis. Specialty medications allow people with complex medical conditions to lead better lives. However, these medications are very expensive. We have built a technologically advanced specialty pharmacy staff with certified pharmacy technicians, registered nurses and clinical pharmacists to better manage both the quality and the cost of care for our members. PrecisionRX handles over 1000 drugs for 14 diseases, including hemophilia, multiple sclerosis, rheumatoid arthritis, psoriasis, hepatitis C and cancer.

Moving to the SG&A expense ratio, it was 14.6% in the third quarter of 2007, a decrease of 90 basis points from 15.5% in the third quarter of 2006. We're very pleased that in absolute dollars, G&A spending in the third quarter of '07 was lower than the third quarter of '06 even though we have added more than 700,000 new medical members in 2007. Management remains focused on optimizing administrative spending. Our organizational changes help continue to drive these savings. The ratio improved year-over-year as we continued to control spending and spread administrative expenses across a growing revenue base. We expect the SG&A ratio to increase in the fourth quarter as our spending increases for 2008 enrollment and we continue to make investments today to further improve our competitive advantage. We are increasing our spending on 2008 enrollment to take advantage of number of growth opportunities, such as those presented by the M-Plan endorsement in Indiana, South Carolina Medicaid and our senior business.

One example of an investment that improves service while reducing cost is our new online employer access portal for the large groups in California, Colorado, Nevada, Georgia and UniCare. This new application allows benefit administrators to conduct self-service transactions, including enrollment, billing, eligibility inquiry and reporting in one seamless secure online portal. And for our small groups in California, we recently launched a new online tool to support quoting and enrollment. This new tool is a key component of our e-distribution strategy and will streamline the administration process for our small groups and provide seamless integration with our back-end systems, such as underwriting and membership.

Moving now to net investment income, it was $258 million in the third quarter of 2007 and increased $35 million, or 15.7% from the third quarter of '06 due to our strong cash flow and higher interest rates. Our effective tax rate was 36.7% million in the third quarter of 2007 which is 130 basis points higher than 35.4% in the third quarter of 2006. But as a reminder, the effective tax rate was lower in the third quarter of 2006 due to a change in the Company's state tax apportionment factors. We continue to expect our full-year 2007 effective tax rate to be 36.8%.

Turning to our reportable segments, the Commercial and Consumer business, or CCB, is our largest segment and continues to have strong financial results. Operating revenue in the third quarter of '07 was $10.6 billion, an increase of $346 million, or 3.4%, from the third quarter of '06 led by disciplined pricing. Operating gain for the CCB segment was $1.1 billion in third quarter of 2007, an increase of 17.5% compared to $936 million in the third quarter of 2006. Improved performance in the CCB segment resulted from disciplined pricing in our Local Group business. Our commercial medical membership has increased by more than 400,000 members over the last 12 months. While we have seen some membership attrition on non-Blue states, we continue to increase our membership in our Blue states. The CCB financial results demonstrate our commitment to pricing with discipline as the benefit expense ratio in our CCB business improved by 40 basis points from the prior-year.

Specialty Senior and State-Sponsored business, or 4SB, operating revenue in the third quarter of '07 was $3.4 billion, an increase of $461 million, or 15.8% from the third quarter of '06 primarily due to growth in State-Sponsored and Medicare Advantage businesses. Operating gain for the 4SB segment totaled $224 million in the third quarter of 2007, a decrease of 21.2% compared to $284 million in the third quarter of 2006. The decrease from prior-year was primarily attributable to higher than expected costs recorded in the quarter as a result of the accrual for CMS Medicare Part D 2006 and 2007 risk-sharing payments.

Our Other segment operating revenue in the third quarter of '07 was $1 billion, a decrease of $62 million or 5.7% from the third quarter of '06 primarily due to higher intersegment eliminations reflecting additional PBM sales to our CCB segment. Operating loss for the Other segment was $26 million in the third quarter of 2007, which compares to an operating loss of $13 million in the third quarter of 2006. The change resulted primarily from increased corporate expenses.

Now moving to the balance sheet, current assets were $13.7 billion at September 30, 2007, an increase of $2.1 billion from year end 2006 due to increased cash and investments. Total assets were $52.9 billion at 9/30/2007, up $1.3 billion from year end. Medical claims payable were $5.8 billion at the end of the quarter, an increase of $495 million from year end 2006. Our days in claims payable as of June 30, 2007 was 46.8 days, an increase of 1.3 days from 45.5 days as of June 30, 2007 due to lower benefit expense per day which one day increase. We had a 0.4 day increase due to provider settlement accruals, a 0.1 day increase due to the timing of PBM claim payments and that was partially offset by a 0.3 day decrease which was a reduction in claims cycle time, the length of time between the date of service and claim payments and all other items netted to a 0.1 day increase.

We've 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 second quarter 2007 press release. We report prior-year redundancies in order to demonstrate the adequacy and consistency of prior-year reserves. For the nine months ended September 30, 2007, we had significant positive prior-year reserve development of $336 million. This compares with $577 million for the nine months ended September 30, 2006. We continue to establish our reserves in a consistent and conservative manner.

Long-term debt was $8.4 billion at September 30, 2007, a $1.9 billion increase from year end 2006. During the third quarter, we received $500 million from the issuance of 15-year zero coupon bonds through a private placement on favorable terms. Our debt to cap ratio at September 30, 2007 was 26.9%, up from 22.2% at year end 2006 and is in our targeted range of 25% to 30%. For the nine months ended September 30, 2007, operating cash flow totaled $3.2 billion, or 1.3 times net income. As expected, in the third quarter, we received only two CMS monthly payments of approximately $539 million each. For the quarter, operating cash flow is 0.6 times net income. Had we received three monthly CMS payments during the quarter, operating cash flow would have been 1.2 times net income. As of September 30, 2007, we had $2 billion of cash investments at the parent holding company and we expect to dividend an additional $1.3 billion from subsidiaries during the remainder of 2007.

During the third quarter of 2007, we repurchased 30.1 million shares of common stock for $2.4 billion, bringing our year-to-date totals to 54.4 million shares for $4.3 billion. Month to date through October 17, 2007, we repurchased an additional 4 million shares for $317 million and our remaining Board-approved share repurchase authorization was $307 million. Consistent with past practice, we will periodically revisit our capital plan with the Board.

Turning to our 2007 guidance, we now expect net income of $5.56 per share, representing growth of 15% over 2006. Our year end medical enrollment is now expected to be approximately 34.9 million members with fully insured membership now expected to be 17.3 million and self-funded membership expected to be 17.6 million. Operating revenue is now expected to total approximately $60.2 billion.

As I noted earlier, we now expect the benefit expense ratio to be approximately 82% and our SG&A expense ratio is expected to be approximately 14.7%. At this point, we expect full year 2007 operating cash flow of $4.2 billion, or 1.2 times net income. This is lower than our previous guidance due to lower than anticipated fully insured enrollment, and additional risk sharing payments to CMS due to the Part D claims reconciliation process. Our weighted average shares outstanding are expected to be 605.6 million for the full year 2007. The Company continues to expect net income of $1.50 per share in the fourth quarter of '07.

For 2008, we remain committed to our earnings-per-share growth target of at least 15%. We're currently finalizing our 2008 plan and will share our 2008 guidance in greater detail during investor day on December 11, 2007 at our California Health and Longevity Institute in Westlake Village, California. If you have not yet registered for this conference, please contact our investor relations department to do so as space is limited. I will now turn the call over to Angela to lead a question and answer session.

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

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

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Matthew Borsch, Goldman, Sachs.

Matthew Borsch - *Goldman, Sachs - Analyst*

I am wondering if you could just talk a little bit about the trend in the commercial fully insured business. I think if I'm running the numbers right, I think you're down about 400,000 commercial fully insured members for the first nine months of this year. Is that -- can you just highlight for us again the key triggers there? And I heard you that there were some I guess you said 86,000 lives that switched this quarter to [ASO]. Maybe you could just elaborate on whether that was a couple of large accounts or something that you see on a continuing basis. I'm just asking of course because it has an impact on the revenue, and I think if we were to lose another 400,000 next year, that would be tougher from an operating leverage standpoint.

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

Let me address that generally, and then I will turn over to Wayne to address more of the specifics. But I think it is important that, as you noted, that 44,000 of this decline actually converted from fully insured to ASO. So we retained the account, but they chose to self-fund. Of the remaining, we look total at the sequential decline of 141,000. If you look at the remaining 97,000, almost 70% of that occurred in our non-Blue branded market. So we still believe that we are competitive because we are disciplined around price. We think we have the best networks to offer and we are obviously really competitive on our administrative costs. So Wayne, do you want to address any of those other issues specifically?

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

And Matt, to your comment, as Angela addressed the sequential decline and obviously on a full year basis we're seeing about 86,000 of those members that we are retaining but they're converting to ASO. But clearly in the fully insured market it's very competitive today. And I think the important thing is that we are refocusing our efforts and part of our non-Blue branded strategy is in putting Dennis Casey over that unit to work forward on a new strategy in '08 which I think we'll really see the value in '09 from that. In our Blue markets we're doing quite well, but again we're not going to buy membership. And I think if you look at our commercial segment, you will see that we are holding that true and our margins are expanding. So it's clearly a competitive environment, it's a challenging environment and we have seen trends where there has been conversions from fully insured to ASO. But we remain disciplined in our Blue states.

Matthew Borsch - *Goldman, Sachs - Analyst*

If I could just ask just one more on the question of enrollment timing. I guess there has been some speculation that your commercial, total commercial enrollment risk and ASO, might be down going into January 1 versus year end 2007. Can you just comment on that directionally?

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

I'm not expecting it to be down at this point, Matt.

Matthew Borsch - *Goldman, Sachs - Analyst*

Okay, great. Fantastic. Thank you.

Operator

Charles Boorady, Citigroup.

Charles Boorady - *Citigroup - Analyst*

I have a question then a follow-up. First in terms of just understanding the run rate of your earnings in this quarter, I recognize the CMS charge should be accounted for, but it relates mostly to '06. So is $1.50 really the right run rate to think about in terms of modeling going forward, or were there other offsets in the quarter?

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

Charles, it's a very good question. The majority of the Part D does relate to the '06 CMS reconciliation. There is a small amount that we did book related to '07 under the premise that we've always been conservative and consistent in our methodology. I want to emphasize that on the Medicare Part D, we're still pursuing reconciliations on that with CMS. And as it relates to '07, while we've recorded a small reserve associated with that, the timeframe for settling that goes out into '08. From a run rate perspective, we are using some of those dollars in the fourth quarter though to help us with our '08 membership. We've got a number of National Account wins, and so we are ramping up spending in the fourth quarter to support that. With us expanding in the South Carolina Medicaid, we have some ramp up in the fourth quarter to support that as well. But you definitely hit it on the head. And again, had we not had that charge, we would have had a very, very great quarter.

Charles Boorady - *Citigroup - Analyst*

And the mention that you just made, and Angela in her prepared remarks, regarding the ongoing reconciliation with CMS, how should we -- including for amounts relating to '06 still -- how should we think about those going forward? Were they fully reserved for as part of the 40-bp hit this quarter? And if you are successful in this process with CMS, could we see a future positive adjustment, or are you contesting something that could potentially be another negative adjustment going forward?

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

You know, Charles, it's a good question. I would tell you that we could have positive adjustment, but I would view those positive adjustments not as run rate, no different than this charge here. I think the important point to recognize on the '06 reconciliation is, what we're talking about is the excess profit margins that we share with the government. So in this case, it's not necessarily a run rate item as much as it is settling up on what that excess amount actually is. So, even if we get some favorable settlement on it, I would not view the favorable settlement as being run rate either, just as I wouldn't view this unfavorable charge in the quarter as being run rate.

Operator

Josh Raskin, Lehman Brothers.

Josh Raskin - *Lehman Brothers - Analyst*

Two questions. One, I just want to make sure I heard you right, Wayne, that you said the inpatient trend was improving. I didn't know if that was just utilization or if there was actually unit cost improvement there. And then also, if you could just let us know, what was the driver of the higher corporate expense?

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

Yes, Josh, the inpatient trends, while it's still up, it has improved slightly from where we were at earlier in the year. So from that perspective, we think some of our contracting is paying off and utilization remains flat. So while costs are still up, we have seen the trend slightly decline, and that is really on the unit cost side, and again utilization remains flat. So we feel pretty good there.

In terms of the higher corporate expenses, it's really just a potpourri of items. Some of it is our true-ups on our pension benefits that we have, and of course those are items that -- where we allocate certain components, not all components get allocated. So it's no one particular driver in particular at this point in time, it's really just a potpourri of small items.

Josh Raskin - *Lehman Brothers - Analyst*

And then just to sneak one in, you have been talking about this reconciliation with CMS as taking a charge in the quarter, but that was an income statement item. Was that above the line? I guess why are you calling it a charge?

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

I'm sorry, it's an above the line item and it ran through revenue, because this is a settlement on premium, so this is actually going through revenue.

Operator

Scott Fidel, Deutsche Bank.

Scott Fidel - *Deutsche Bank - Analyst*

First, Wayne, could you just actually specify how much the hit to revenue was from the CMS reconciliation?

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

Right now, as we have talked about, it's about 40 basis points. The reason we haven't specifically called out a number is that we're still working on settlements with CMS on this, and so we're trying not to publicly negotiate on what we believe we're entitled to at this point in time around that process. But I think you would be able to probably back into it fairly easily based on that.

Scott Fidel - *Deutsche Bank - Analyst*

And just a follow-up, just if you can talk about your cost trend expectations for 2008. Are you still thinking of that as slightly less than 8%, or are there any factors that you think can drive that higher or lower? And just thinking United, they said on their call maybe some public policy changes that could have an impact, and are you thinking about that as well?

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

Clearly, we always think about pricing and ensuring that we cover total trend being both cost of care and SG&A. Scott, we're in the process of finalizing our '08 plan. We'll be meeting with our Board soon to discuss it. I would prefer to wait until we've got approval from our Board to provide that detail at our IR day.

Scott Fidel - *Deutsche Bank - Analyst*

If I could just sneak one more follow-up in. Just thinking about the outlook for the specialty businesses, how much, given that 1 million lives of growth you expect next year, how much penetration opportunity do you see in that for the PBM in the behavioral business?

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

Let me talk about that a little that, because that is part of the reason that we made this organizational change. We're bringing the specialty businesses into the commercial business that will be led by Ken Goulet, which I think will really create some great opportunity for us to talk about a truly integrated solution. We are seeing the impact of that, for example, in our PBM. We are seeing a higher penetration in the PBM than we have ever in the past. Our 360-degree house solution, our comprehensive health solutions unit is delivering that, and we are seeing 90% of our national accounts are taking our disease management and wellness program.

Operator

Bill Georges, J.P. Morgan.

Bill Georges - *J.P. Morgan - Analyst*

Talking about the California and Connecticut rate increases, I guess you specifically said that you got an increase of 8.3% in California. How does that square with your expectations?

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

Hey, Bill, it's a great question. I need to separate the response though into a couple of buckets. Remember, there were nine counties in which we were trying to get resolution on and rate increases. So for eight of the counties, right now we have 8.3% on the table. I will tell you for many of the counties, it is right in line with our expectations where we want it to be. For a few of the counties, we're still working with the state right now to finalize the terms. There's one county, though right now, that it's hard for me to say how it aligns because we just don't have the rates yet because of the subcontractor arrangements. So that's probably the biggest unknown for us right now for us, is where that one is. But in terms of the other eight, right now they're combining to an 8.3% combined return, and I do expect that terms will finalize very near term.

Bill Georges - *J.P. Morgan - Analyst*

And what portion of that increase accrues directly to you, versus going towards a provider rate increase?

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

Our provider rates have already been locked and loaded, and I don't believe there's any changes to those structures. So from this perspective, the majority of this accrues to us.

Bill Georges - *J.P. Morgan - Analyst*

And just regarding your SG&A improvements, can you talk about -- to what extent is that a delay of discretionary spending versus planned improvements in your SG&A?

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

Let me try to address that generally. Last November, we organized as an enterprise to really leverage what we think are our key strengths -- our differentiating characteristics, which is the ability to really scale across the enterprise. And I think the estimated improvements are a direct reflection of that organizational structure and our ability to really scale across the enterprise.

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

And I would tell you, Bill, there were no delays in spending this quarter.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - *Morgan Stanley - Analyst*

I would like to probe the enrollment guidance a little bit. Could you talk about whether you expect at-risk commercial enrollment to be up or down next year? Are you expecting to continue to lose some of the UniCare enrollment, or should we see kind of the end of that and net enrollment growth on the at-risk commercial side?

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

Hi, Christine, that's a good question. Well, we are finalizing our 2008 plan. I think it's fair to say that we will see some growth in UniCare, but in some ways, we're also trying to rebuild the strategy. But we do expect, and we will provide more details on 2008 guidance in December, that we will have growth in our commercial fully insured book next year.

Christine Arnold - *Morgan Stanley - Analyst*

Will that begin on 1/1, or do we take a step down and then grow?

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

Again, we will provide more details at our IR day because we have a number of initiatives that we're putting forward in front of the Board to stimulate some of the growth. But I think at this point, it's fair to say that it will come in a little more evenly throughout the year. But again, we will provide more details at IR day.

Christine Arnold - *Morgan Stanley - Analyst*

And stability in the MLR is probably a reasonable expectation on the commercial side?

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

Absolutely.

Operator

Justin Lake, UBS.

Justin Lake - *UBS - Analyst*

Just a quick follow-up on the UniCare business. Can you give us an idea as far as sizing that from a membership and premium standpoint, just to let us know what the potential is here?

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

We have 1.7 million members in UniCare.

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

And Justin, if you compare that 1.7 to when we brought the two entities together, that number was closer to 2.2 million. So you can really see where we have shed a number of our lives over the last 2.5 years or so. It really has been in the non-Blue branded aspects of our business. I think it's fair to say that this is an area where we know we can improve, it's an area where we know there's a great growth opportunity out there, and it's one of the reasons we've put Dennis over this unit. Dennis had led us to number one market share in Indiana and great margins, and we think he will do an exceptional job on UniCare as well. But to do that, we really do need to give him '08 as an opportunity to build out the strategy to see success in '09.

Justin Lake - *UBS - Analyst*

And the predominance of those numbers as full risk, right?

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

They are about 50-50.

Justin Lake - *UBS - Analyst*

And just a quick follow-up on the SG&A side. In regards to this year, obviously, you have seen a pretty dramatic improvement in SG&A. I think you saw the results bifurcate as far as growth in the commercial versus the government, which I always think of as lower SG&A margin. Can you give us an idea, or maybe bifurcate the SG&A improvement -- how much of that has been mix versus actual declines? If we were to look for instance at the commercial book it looked like you improved margins there by 120 basis points. 40 basis points you have acknowledged as MLR, so that would lead me to believe that the SG&A is 80 basis points better in the consumer business this quarter.

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

Justin, it's a good question, and I apologize. I don't know that I can have that breakdown now, but I will follow-up on that. What I can say though is that it's more than just mix when you consider the fact that on an absolute dollar basis, our overall SG&A spend is down about $24 million when compared up in the third quarter of '07 versus '06 while adding the 700,000 lives. So while mix is part if it, it's not all of it. A lot of is we're just getting it done, day in and day out and being more efficient.

Justin Lake - *UBS - Analyst*

Absolutely. I'm just curious as to how much more room there might be there, and if that 80 basis points of change that we saw in this third quarter which you've kind of identified for us is kind of a good run rate to think of for '08. Maybe it's a little early to answer that though.

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

It is a little bit early to answer that, and we'll have to get you some more details on that as well. But we will provide more granularity around IR day. As we've said, we've been focusing on a goal of reducing our SG&A by another 150 to 200 basis points over the next three to five years. But again, there's going to be a lot of shifts that we will need to talk about. As you know, the AIM acquisition is a great acquisition for us and it drives a lot of value in our cost of care. But it's also administrative in nature. So we will provide more details on IR day around the components.

Operator

John Rex, Bear Stearns.

John Rex - *Bear Stearns - Analyst*

Two quick questions. First of all, can you tell us for your '08 earnings how much share repurchase you contemplate in getting at that number?

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

Yes, but we'll talk a little bit more about that in investor day.

John Rex - *Bear Stearns - Analyst*

Directionally, would it be fair to assume that you do assume additional share repurchase over what you have accomplished through present?

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

John, we obviously believe that we're using our capital effectively and we're going to continue to review that with the Board and we will be doing that over the next month. So we'll be prepared for investor day.

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

I think it's fair to assume, John, that we expect very strong cash flow next year, no different than we've had this year, and we have $2 billion in cash and investments at the parent, and another $1.3 billion is expected to be dividended up in the quarter. So we need to find an effective use for that and we're going to be reviewing that with our Board as part of our '08 plan.

John Rex - *Bear Stearns - Analyst*

And then looking at the Medicaid book again, what percent of your California membership would the eight counties represent of your California Medi-Cal membership?

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

I would have to get you the exact figures. It's a decent size of the nine counties that we've been talking about, meaning well in excess of 50% of that. So at this point, John, in the other counties right now, we expect to move forward satisfactorily as well. So it's hard to break it down into all of the pieces at this point. Again, we're trying to make sure we don't publicly negotiate on the few counties.

John Rex - *Bear Stearns - Analyst*

But the eight counties, is it more than 50% of your total California membership?

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

No, not of total California.

John Rex - *Bear Stearns - Analyst*

Of total California Medi-Cal it's --.

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

Right, but there's a couple of sizeable counties that have normal renewal dates of January 1 that we're still negotiating right now, just starting that negotiation.

John Rex - *Bear Stearns - Analyst*

Okay, so it's kind of a smaller percentage of your total membership base for the number you're talking about then?

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

Correct.

John Rex - *Bear Stearns - Analyst*

And just Connecticut --.

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

John, just south of 50%, though, it's not dramatically south of that.

John Rex - *Bear Stearns - Analyst*

Okay. Did you anticipate any retroactivity in Connecticut Medicaid this quarter? That is, did you accrue for any retroactivity?

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

We anticipated it, but we did not accrue for it.

John Rex - *Bear Stearns - Analyst*

Okay, great, thank you.

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

Until we get it in writing, we're not going to recognize it.

Operator

Douglas Simpson, Merrill Lynch.

Douglas Simpson - *Merrill Lynch - Analyst*

Just talking about the $200 million reduction in the operating cash flow outlook for this year, I know you commented it was both -- it was part PDP reconciliation and then part this lower risk enrollment. Can you give us any more granularity just which was the bigger of the two?

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

I would say for this year that it's closer to 50-50 on the split. It's not all associated with the Part D, because as you know, Part D is substantially less than that. But there is a cash outflow. So let me clarify, Doug, that's probably not appropriate to say 50-50 because we have the normal accrual we already had up for Part D, which was baked in. So the majority of it is around our membership at this point

---

Douglas Simpson - *Merrill Lynch - Analyst*

And then just on the PDP reconciliation with the benefit of hindsight and just in terms of processes and controls, just as a rolling process, how comfortable are you that guys have it nailed now and going forward, this just won't be an issue in future periods?

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

I think that's a very good question, and I want to spend a few minutes on this topic because I think it's one that everybody will want to know. Recognizing that 2006 was the first year of Medicare Part D, and it was the year in which we were the facilitated enroller, just as we are in 2007, it's important to recognize that because of that facilitated enrollment process, there was not a process for plans to settle with one another established until late fourth quarter of '06 that continued into '07. So for us to be able to submit our prescription drug event, or PDE format, this really was what I would call kind of a onetime very unusual event because it was difficult for us to settle up in '06 until we could settle up with other plans and know what our closure and conclusions were there. I don't expect to have similar levels like this in '08 as we settle out '07, but I do want to make sure everybody knows that we applied a consistent and conservative approach in determining our '07 reserve, but it is substantially less than what we settled in '06. Again because we have cleaner membership data much sooner than we did a year ago.

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

I think this product obviously is evolving both on the CMS side and for the plans, and we are getting better and better at the processes that we can execute against going forward. But there always will be this risk sharing reconciliation. So that is part of the process that we think we understand well now.

Douglas Simpson - *Merrill Lynch - Analyst*

Okay, thank you.

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

Doug, just one item to put in perspective. If you look at a similar process in '06 where we had to settle with other plans and receivables that were owed to us versus how that streamlined in '07, that receivable balance this year is about 90% less than it was a year ago at this time. So, clearly, as this program gets rolled out and processes get established, it gets a lot easier.

Operator

Carl McDonald, CIBC World Markets.

Carl McDonald - *CIBC World Markets - Analyst*

If we adjust for the PDP charge, you would have had $0.06 upside roughly relative to your guidance. Can you size that for us in terms of how much came from Commercial, Medicare, Specialty?

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

Our Commercial has done quite well. I would say most of it's in the commercial book.

Carl McDonald - *CIBC World Markets - Analyst*

And secondly on the roll forward table, it looks like the favorable development for the year is actually down $20 million sequentially. So can you walk through the moving pieces driving that?

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

It's down slightly. It's about $20 million down and it really again relates to '06. And it's really, it's what I would call fine line true-ups on individual lines. So it's not any one product or any one customer type, but it's really just a true-up of how we're seeing final development still come through related to '06. I really don't expect it to move much more at this point.

Operator

Greg Nersessian, Credit Suisse.

Greg Nersessian - *Credit Suisse - Analyst*

Most of my questions have been answered, I just wanted to follow-up on Josh's question from earlier regarding the inpatient costs. I think you mentioned that they were mid single digits, earlier I think you said high single digits. Is it your sense that that is a WellPoint specific phenomenon, or is it something that you would characterize as more of an industry-wide phenomenon? And I guess as you think about that going forward, how might that or might that not impact pricing yields going forward in the level of competition?

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

I'm not so sure that -- I think all of us might be experiencing utilization being flat. I haven't really heard anybody say that there's an industry issue of utilization ticking up, so that may be more of an industry issue. In terms of our unit cost, again, while we're still seeing increases, I think we're improving on that. I cannot speak for our competitors, but what I can say is I am very proud of the contracting efforts that our team has put first quarter and holding the line for our members. So again, I don't know how that compares to others, but for us, I think we're doing the right things.

Greg Nersessian - *Credit Suisse - Analyst*

And to the extent that that inpatient cost results in a lower overall trend, the expectation, I know you're not talking out yields yet going into '08, but the expectation would be that you would be pricing again in line with whatever your trends, anticipated trends, next year will be?

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

We will price to cover total cost of care and SG&A.

Operator

Michael Baker, Raymond James.

Michael Baker - *Raymond James - Analyst*

I was just looking for some general commentary on the M&A outlook. Last deal appeared as though it was more cost focused versus some previous deals. Is there any shift towards maybe more cost-focused cost containment type deals versus revenue enhancing?

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

Regarding our M&A strategy: we would look carefully at any Blue transactions, we would look at non-Blue business in the core markets. But AIM was a great transaction for us and made great sense from the cost of care perspective, but they're really in their essence a technology company. They have been focused on radiology management, but we're going to focus also on cardiology, on orthopedics. So they really do bring a capability to us that we think is very, very strong. On the other side though, the M-Plan endorsement transaction is a reflection of what we think is just part of the cycle of the business, which is we are a very attractive option. And we think by doing an endorsement deal with M-Plan as opposed to some type of acquisition, we are really getting the benefit to our membership growth.

Operator

Brian Wright, Jeffries & Co.

Brian Wright - *Jeffries & Co. - Analyst*

Can you speak to the operating cash flow growth outlook next year?

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

Again, we're finalizing our '08 plan now and we'll be presenting it to our Board in the very near-term and will provide more details. I still would expect that operating cash flow will support the quality of earnings we have and will exceed net income at this point in time.

Brian Wright - *Jeffries & Co. - Analyst*

Maybe similar kind of levels, 1.3, 1.2 times net income?

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

I think, again, we are finalizing it, but I think we will see comparable levels, but at that this point, we're still finalizing it.

Operator

Tom Carroll, Stifel Nicolaus.

Tom Carroll - *Stifel Nicolaus - Analyst*

There's been a lot of talk this morning about enrollment numbers, and I wanted to continue that conversation. As I think about it, in '07 your expectation was for 1.4 million new enrollees, which is ultimately coming in at around 800,000. And in '08, we are suggesting greater than 1 million and it sounds like your very comfortable with that and Angela thanks for the commentary in your prepared remarks about it. But could you maybe provide a little more comment on that, and maybe from the perspective of what could go wrong, maybe what happened in '07, what's the chances of seeing that translate into '08 enrollment growth?

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

Let me address that, because of this 1 million net new members, at this point in the year, we are certain about a fair amount of this growth. So we know in the National Accounts area that we expect our growth to be slightly higher than this year. And because of this large win that we have for a July 1 effective date, it's going to be shifted to midyear with that group. We know we have the Medicaid contract with our partnership with Blue Cross-Blue Shield in South Carolina and we expect 50,000 members when that's fully implemented. The Indiana Healthy Families Program, we think we've counted kind of our fair share - what we think would be a third of the total program size, so that's about 47,000 members. And then while M-Plan has more members than these, we expect about 50,000, commercial lives. And then the state of New Hampshire, 39,000. So to the point of what is different than this year, I think this is almost half of that number of what we expect next year. We're going to stay disciplined around pricing, but we also really think we have the winning product suite for the marketplace and that we're going to continue to grow and we're going to deliver more value in a very disciplined way and we think it will produce membership growth.

Tom Carroll - *Stifel Nicolaus - Analyst*

So as a follow-up, I guess you were certainly comfortable going into '07 with your numbers and had I thought fairly certain outlooks on the various enrollment buckets. As we look at '07 perhaps maybe your commercial business attrition was just higher than you expected. Is that fair to say?

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

I think UniCare it certainly was, and we're confident that we're going to get our arms around that with Dennis and to help us focus on that and UniCare as well.

Tom Carroll - *Stifel Nicolaus - Analyst*

Just trying to think about what is different going into '08 that wasn't there in '07. So, thanks.

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

Tom, one thing I would like to emphasize is, keep in mind that when you look at where we fall short this year, almost half of where have fallen short is in our non-Blue branded business and we've always said we're not going to buy membership. We do think we have opportunities to expand that book. We think we have a better way to focus on it. I think Dennis is going to do the right things. We have talked more about a million net new lives. We are getting to the point of the law of large numbers and adding 5% membership becomes quite difficult when you consider we have almost 35 million lives. But nonetheless, we think we can still add over a million lives next year and we think we have great insight into that already.

Operator

Wayne Cooperman, Cobalt Capital.

Wayne Cooperman - *Cobalt Capital - Analyst*

Thanks. Actually, my question was answered. Thank you.

Operator

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

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

Thank you for your questions. In summary, we had a good quarter and are pleased with our performance to date. Our Commercial and Consumer business is having a very good year with the operating margin expanding by 60 basis points year-to-date through September 30, 2007. We met our earnings guidance for the quarter despite higher than expected costs as a result of the accrual for CMS, Medicare Part D 2006 and 2007 risk-sharing, and we remain optimistic about our future.

As Wayne noted, we will hold our annual investor day at our California Health and Longevity Institute in Westlake Village, California on December 11, 2007. We're looking forward to seeing many of you there. And for those who cannot be there in person, it will be web cast. I want to 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 starting today, Wednesday, October 24, at 1:45 PM Eastern time, and it will be available through Tuesday, November 6 at midnight Eastern time. You may access the AT&T executive playback service by dialing 1-800- 475-6701 within the United States or Canada, or from outside of the United States or Canada, please dial 320-365-3844, and then enter the access code of 857271. (OPERATOR INSTRUCTIONS).

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