



**Health Net, Inc.
Q4 and Full Year 2008 Earnings Conference Call
February 3, 2009
8:00AM PDT**

Corporate Participants:

Angie McCabe, Vice President, Investor Relations
Jay Gellert, President and Chief Executive Officer
James Woys, Chief Operating Officer
Joseph Capezza, Chief Financial Officer

OPERATOR: Good day everyone welcome to this Health Net, Inc. fourth quarter and full year 2008 conference call. Today's call is being recorded.

At this time I would like to turn the call over to Angie McCabe, vice president of Investor Relations. Please go ahead, ma'am.

ANGIE McCABE: Thank you, Kayla. Good morning.

During this call we will make forward-looking statements that are subject to certain risks and uncertainties. Risk factors that may impact those statements and could cause actual future results to differ materially from currently expected results are described in our filings with the SEC as well as the "Cautionary Statements" in our press release issued in advance of this call.

Health Net reported earnings per diluted share of \$0.34 in the fourth quarter of 2008, including approximately \$47.8 million in charges. Excluding the charges, Health Net's earnings per diluted share were \$0.61.

In today's call we will refer to various adjusted amounts that exclude the impact of the charges taken in the fourth quarter and throughout 2008. Unless otherwise noted, these adjusted amounts are not in accordance with Generally Accepted Accounting Principles. Today's press release, which is available on the company's Web site, includes a reconciliation of non-GAAP financial measures with operating results, excluding these charges.

In addition, a supplemental schedule showing a breakout of reserves and health care costs for capitation, provider settlements and the impact of Part D, is included in the press release. These supplemental items provide the basis for discussion of operating metrics, excluding the charges, where appropriate, and discussion of day claims payable, excluding the costs noted above.

Let me now turn the call over to our CEO, Jay Gellert. Jay?

JAY GELLERT: Thank you Angie, and good morning, everyone.

In our Investor Day last November we laid out a plan to improve our performance and increase shareholder value. The plan consisted of the following: First, hit our Q4 targets. Second, realize adequate returns from the money we have invested in the Northeast and Arizona. Third, achieve our 2009 plan through improved performance in Medicare and in our commercial businesses in California and Oregon, and through the continuation of our operations strategy. And fourth, position ourselves for the future with a strong balance sheet, targeted growth strategies in our California and Oregon market, continued success in Medicaid, Medicare and TRICARE, and a solid position from which we can respond to changes in government policy and the environment.

We have made substantial progress since November with that plan. We met our fourth quarter expectations. Today we reported an adjusted diluted EPS of \$0.61. Our adjusted health plan MCR was 85.5 percent while the adjusted commercial MCR was 84.4 percent and the adjusted G&A was 9.5 percent -- in line or better than what we guided to in each category.

Our balance sheet is strong with approximately \$150 million of cash at the parent, a current ratio of 1.6 times, tangible net equity of \$843 million¹ and an increase in days claims payable between the third and fourth quarters of 2008.

We are encouraged by our 2009 prospects. January 1 enrollment is coming up a little better than we thought with strong commercial yield increases of 9 percent PMPM and a positive yield to cost spread. We are particularly encouraged by the strength of our narrow network commercial products.

Our Medicare MA enrollment is coming in the right places where our network model plans are well established. This will aid us in meeting our margin improvement goal of 150 basis points in MA MCR in 2009. Our Part D enrollment decreased in the places where we sustained losses last year, giving us increased confidence in our goal of the 500 basis point MCR improvement year-over-year.

We are slightly ahead of schedule with our operations strategy and the acceleration in asset write-offs reflects this.

Cash flow for 2009 is expected to be better than prior guidance as the Medicare Part D receivable that we accrued in Q4 due to our 2008 experience will be paid to us by CMS in 2009. The Part D receivable is impacted by the fact that our members are primarily dual-eligible and the government owes us for both the member share in the doughnut hole as well as catastrophic reinsurance.

We are actively engaged in the Northeast and Arizona process where we have more than \$500 million in excess capital that is currently not producing an adequate return. Upon completion of this process, we believe we will be positioned for the future with solid commercial and Medicare operations, TRICARE, Medicaid and a more efficient G&A structure. It also will allow us to continue to develop products and services attuned to the changing environment.

¹ This amount was unintentionally stated to be \$843 million on this earnings call. Please note that the correct amount for tangible net equity is \$909 million.

With regard to the changing environment, the first round of activity under President Obama is starting to pick up. The Federal stimulus plan enhances COBRA by providing premium assistance and extending the period of COBRA coverage. This could lead to more COBRA members and a more representative mix of COBRA members.

We also believe that the proposed FMAP increases will help secure funding for Medi-Cal. As we can see in Q4, the economy is placing additional demands on this program. In addition, Congress passed an extension of the SCHIP program which is estimated to cover more than 4 million children on top of the 7 million who are currently enrolled. The president is expected to sign the extension next week. While it's too early to tell what all this will mean, we are optimistic that additional opportunities will materialize for us.

Finally, we believe we are well positioned for further reform and for the volatile economic environment. By leveraging our Medi-Cal network, offering products that are designed around more narrow, cost-effective networks, and through our *Salud* products which are marketed to the Latino population.

In conclusion, we laid out a plan that we believe will achieve improved performance in 2009, and increase value for our shareholders. Our fourth quarter results were the first step. We have momentum in our commercial markets, improved performance in Medicare, and continued solid performance in our DoD and Medicaid businesses.

I now will turn the call over to Jim Woys, our chief operating officer. Jim will review the operations of the company. Following Jim's formal remarks, Joe Capezza, our CFO, will discuss the financial results. Jim?

JIM WOYS: Thank you Jay, and good morning.

Q4 was a solid quarter for us. Our adjusted EPS of \$0.61 was right in line with our November guidance.

I can briefly summarize the results for the quarter as follows: First, commercial year-end membership, yields and cost trends were in line with revised expectations. Second, Medicare margins were as expected. Third, we saw slightly favorable Medicaid membership. Fourth, we experienced a slight deterioration in our government contracts ratio, and finally, we had good progress on our operations strategy and G&A performance.

I'll discuss each of these items in more detail.

This quarter's results, combined with an early view of January membership and revenue yields, gives us confidence in our '09 EPS guidance from Investor Day. At the November investor conference, I introduced a new management team and made a commitment that we would focus our efforts on achieving demonstrable improvements in three areas: profitable growth, health care cost trend management and operational performance. We've made great progress over the past several months. These actions include: Reorganizing the Underwriting function and moving it to Finance; reorganizing our sales efforts; adopting a unified sales and marketing approach that identifies specific markets and segments for targeted growth; reconfiguring our medical management organization to more effectively manage care in local markets; successfully contracting with providers under terms that support our health care quality goals and our cost objectives; continued consolidation and optimization of our G&A cost structure consistent with

operations strategy, including an outsourcing of IT and certain claims processing functions; and reducing variation and delivering consistent levels of high quality service.

We are putting the company on the right footing operationally. We enter 2009 with strong pricing - with more than a 9 percent yield on January business. The commercial membership mix is moving to products and segments where we have solid margin improvement opportunities. And we are better able to manage overall health care and administrative costs.

I would now like to comment on our commercial membership activity in Q4. Commercial risk enrollment at December 31st, 2008 was just over 2 million members, a decline of 9 percent year-over-year. Sequentially commercial risk enrollment declined by 2.6 percent.

Part of this decrease was a direct result of pricing membership more conservatively in the latter part of 2008. Both year-over-year and sequentially, the rate of decline in commercial risk enrollment in California was lower than for the company as a whole.

The economy is driving members towards weak spots, and we have seen a great deal of interest in the limited network products over the past year. For example, enrollment in our Silver Network HMO, a more cost-effective narrow network product in California, grew by more than 40 percent in 2008 and is growing ahead of expectations in '09.

Our preliminary look at January affirms our confidence in 2009 membership expectations. We are encouraged in a couple of areas. Our January enrollment is slightly better than we had expected - more heavily weighted in California. In addition, pricing appears rational in our markets. We're seeing higher retention rates, good in-group growth and stronger than expected sales in our key segments. This should result in more profitable, more predictable and a more competitive commercial book.

These and other factors put us on track to meet 2009 expectations of a 3 to 5 percent decrease in our commercial risk enrollment.

Commercial premium yields on a per member per month basis rose 7.9 percent for the fourth quarter compared with the fourth quarter of 2007. Premium yield increases in California were higher than the total company, further evidence of good pricing discipline in our most important market. Our preliminary look at January renewals gives us a high degree of confidence that we can achieve the approximate 9 percent increase in commercial yields in 2009.

The adjusted commercial MCR in the fourth quarter of 2008 was 84.4 percent, a 230 basis point improvement sequentially from the 2008 third quarter MCR. Adjusted total commercial health care costs per member per month increased by 11.3 percent in the fourth quarter of 2008 compared with the fourth quarter 2007.

The 11.3 percent reported commercial health care cost trend was influenced by the factors I described at Investor Day, primarily prior period effects of Q4 of 2007. After adjusting Q4 of 2007 for these factors, the current Q4 trend is approximately 8.5 percent. The underlying commercial trend in Q4 is consistent with the full year guidance we gave in November.

Adjusted cost trend by component for Q4 was: Physician at about 7.5 percent; Hospital at about 10 percent; and Pharmacy at about 7 percent. This supports our confidence in our '09 commercial health care cost trends of approximately 50 basis points below our guided revenue yield of approximately 9 percent.

The company's Medicare Advantage enrollment was strong. MA grew by 25 percent to 295,000 members as December 31, 2008 compared to December 31, 2007.

For Medicare membership, we're reaffirming the guidance we gave in November -- MA down 1 to 2 percent and PDP down 15 to 20 percent. Based on what we have seen to date, enrollment in network-based MA plans is doing better than expected and Medicare Part D, while down, is consistent with our expectations. Consistent with our concerns about Private Fee-for-Service, enrollment will decline year-over-year.

As we indicated in our Investor Day comments, our bids for 2009 were priced to address the revenue and health care cost disparity we saw in 2008, and we expect to see an MA MCR improvement of greater than 150 basis points in 2009. Moreover, the PDP MCR should improve by approximately 500 basis points this year.

Now, I would like to turn your attention to our government contracts division.

Our government contracts division, which includes our TRICARE, Veterans Affairs and DoD behavioral health business, continues to deliver high quality services in partnership with our customer to a very special group of Americans, our military family. We are very proud of the work we do here and look forward to a long, collaborative relationship with DoD and the VA.

First, an update on the status of the reprocurement of the TRICARE North contract. In late December, the government requested final proposal revisions from companies bidding on the TRICARE contracts. We submitted our response in early January. We firmly believe that our final proposal represents the best value to the government in the North Region. Operational performance under the current contract continues to be strong, with extremely high levels of customer satisfaction. We currently expect an award to occur at the end of Q1 or during Q2.

Government contracts revenue for the quarter rose by 21 percent to approximately \$752 million compared to the fourth quarter of 2007. Sequentially, revenue climbed by approximately 4 percent. Our government contracts ratio was 95.6 percent for the fourth quarter and 95.3 percent for the full year of 2008. These are both slightly higher than our previous guidance of 95 percent. These metrics given by two factors: higher overall health care costs, and a rise in the number of eligible beneficiaries using the TRICARE benefit, while the capacity in the Military Direct Care System remains static. Unit cost trends are predictable, indicating continued success in managing our network.

We expect that this trend will continue in to Q1 of 2009, the last three months of Option Period 5. We are currently in a collaborative discussion with our customer on the appropriate health care cost target for Option Period 6, which begins on April 1, 2009. We expect no change from our full year cost ratio guidance for 2009 of between 95.0 and 95.5 percent.

A very positive element in 2008 was the significant growth in our DoD Military Family Life Counseling contract administered by our behavioral health subsidiary, MHN. Revenue for this program, which continues to expand its support of military families worldwide, increased from \$49 million in 2007 to more than \$105 million in 2008. We anticipate continued growth of the services provided under this contract in 2009.

I'd like to close with a few comments on our G&A expenditures for the quarter. Total adjusted G&A expense was \$293.6 million in the fourth quarter of 2008 compared with \$307.1 million in

the fourth quarter of 2007. The adjusted G&A ratio for the quarter was 9.5 percent, a 100 basis point improvement quarter-over-quarter. Sequentially, the adjusted G&A ratio was up 50 basis points, which is consistent due to the open enrollment and Medicare marketing. The adjusted G&A ratio for the full year of 9.4 percent improved 80 basis points over 2007 and is consistent with our November guidance.

We did take G&A related charges in the quarter. These will continue. Given the acceleration of charges in the fourth quarter, we now expect operations strategy-related charges of between \$60 million and \$70 million in 2009. We are encouraged by the progress we made this year improving our cost structure and remain confident of realizing further cost reductions for the operations strategy in 2009 and 2010. Last week we announced the contract of Cognizant for a business processing outsourcing relationship for claim processes. This was the last large outsourcing arrangement in our operations strategy, which will be executed over the next 18 to 24 months.

Now, let me turn the call over to Joe for a few of the details of our financial performance. Thank you. Joe?

JOE CAPEZZA: Thanks, Jim. And good morning, everyone.

As both Jim and Jay have noted, we are pleased with our fourth quarter performance and our ability to meet the expectations we laid out at Investor Day.

We are making good progress on a number of fronts. I am personally pleased with our overall financial performance in the fourth quarter of 2008 and with the strength and stability of the balance sheet.

Let me start with the highlights of our fourth quarter performance. All financial metrics that I will discuss exclude the impact of charges taken in the fourth quarter and in 2008. Again, please refer to our press release for a reconciliation of these measurements.

For the fourth quarter of 2008, we earned \$0.61 per diluted share. Pretax income was \$101.8 million, and the adjusted pretax margin was 2.6 percent. Net income \$63.1 million, all these measures met our expectations.

As a result of maintaining pricing discipline throughout the year, commercial premium yields were strong, coming in at 7.9 percent for the quarter and 8.6 percent for the full year. However, when combined with the adverse affect of the deteriorating economy, we experienced a 9 percent decline in commercial risk enrollment for the year.

As Jim just mentioned, we are encouraged at our preliminary look at the January enrollment and have confidence in our commercial membership guidance for 2009. As you are aware, our Medicare Advantage and PDP membership grew significantly during 2008. Looking at our preliminary January enrollment, both our Medicare Advantage HMO and PDP product membership are running slightly favorable to our original expectations.

One of the more important developments during the fourth quarter of 2008, as Jim mentioned, was the 230 basis point sequential improvement in our commercial MCR.

Also, as Jim noted, we maintained a strong focus on G&A expense management during the quarter. Our G&A ratio was 9.5 percent for the quarter and 9.4 percent for the year, down 100 basis points and 80 basis points, respectively.

Investment income was \$4.5 million in the fourth quarter and was flat sequentially. The tax rate was 38 percent.

Let's now turn our attention to the balance sheet. It remains strong and provides a solid foundation to support our strategic objectives. At December 31, total cash and investments remain virtually unchanged from September at \$2.2 billion, with cash of \$668 million and investments of \$1.5 billion.

Our investment in The Reserve Fund is currently down to \$51 million. We expect to fully monetize the remainder of this investment before the end of the year. The average credit quality of our portfolio remained at AA+.

At December 31, we had net unrealized losses of less than \$12 million, which is less than 1 percent of our total cash and invested assets.

The market value yield-to-maturity of the portfolio is 4.1 percent, with an average coupon rate of 5.1 percent and an average duration of less than 3.7 years.

A few other balance sheet items worth mentioning: Other receivables are up by \$147 million sequentially due to, as Jay noted, an increase in our Medicare Part D receivables.

Reserves for claims and other settlements were down slightly sequentially from September 30th, primarily due to seasonality, and up \$38 million from December 31, 2007. However, it is worth noting that our IBNR was up sequentially by \$33 million.

Adjusted days claims payable climbed by more than two days sequentially from the third quarter of 2008. The fourth quarter level of 54.8 days was essentially flat with the fourth quarter of 2007. As always, I would like to refer you to the DCP reconciliation table accompanying the press release for further details.

Total outstanding debt as of December 31 was \$680 million. This was up \$35 million sequentially due to an additional draw on our revolver. As of today, our outstanding debt was back down to September 30th levels.

The debt-to-capital ratio was essentially flat, ending the year at 27.9 percent.

We also maintained our strong liquidity ratios with our current ratio improving to 160 percent and our cash ratio remaining constant at 98 percent. We ended 2008 with Stockholders' Equity of \$1.75 billion and risk-based capital at our regulated entities that is estimated to be approximately 360 percent. Total shares outstanding were approximately 104 million dollars [sic].

Turning now to cash flow. For the quarter, cash flow from operations was negative by approximately \$53 million due to the previously noted increase in our Part D receivables. Assuming the receivable had been paid in the fourth quarter, cash flow would have been equal to net income plus D&A in the quarter. We expect to receive this cash in the fourth quarter of 2009. Therefore, we are increasing our cash flow guidance for 2009 to approximately 150 percent of net income.

Our cash position at the parent level remains strong. At year-end, we had approximately \$165 million of cash at the parent, and expect this amount to increase as the year progresses. We expect to end 2009 with cash at the parent of approximately \$220 million.

Let me now summarize the key guidance metrics for 2009: We expect commercial membership to decline 3 to 5 percent due to the economy and our continued pricing discipline. Medicare Advantage enrollment will be down approximately 1 to 2 percent. Medicaid will be up 2 to 3 percent, and Part D will be down 15 to 20 percent, as previously indicated. Commercial premium yields are expected to be approximately 9 percent, and approximately 50 basis points higher than health care cost increases. This will support margin expansion. Our government contract ratio will be 95.0 to 95.5 percent. Investment income is estimated to be approximately \$85 million due to the depressed economic and interest rate environment. We expect a G&A ratio of approximately 9.6 to 9.8 percent. The tax rate for 2009 is expected to be approximately 38.6 percent. Our guidance is not predicated upon share repurchase. Therefore, excluding charges, our 2009 EPS is still expected to be in the range of \$2.25 to \$2.40 per share.

As we noted on Investor Day, we will not be providing quarterly guidance in 2009.

If we achieve our goals in these areas, we will have a successful 2009. With that, let me thank you all for your time and we would now like to turn it back over to Angie.

ANGIE McCABE: Thanks, Joe. Kayla, we'd now like to open up the call for Q&A.

OPERATOR: Okay, thank you. Today's question and answer session will be conducted electronically. To ask a question, press star one on your telephone keypad.

We ask that you please limit yourself to two questions per person. Again, that is star one to ask a question, and we'll pause for a moment to assemble the queue.

Q&A

OPERATOR: And we'll take our first question from Matthew Borsch from Goldman Sachs.

MATTHEW BORSCH: Yes, thanks, good morning.

I'm wondering if you can tell us anything more than what you said in your prepared remarks about the process that is under way for the Northeast and Arizona? Anything maybe on the timing and whether those are being contemplated as potentially going to one seller or separately?

And then the follow-up is -- Jay, you referred to the \$500 million excess capital in the Northeast. I'd had a conversation with some of your team earlier on this and I just want to clarify my understanding. Is that total capital? As we're using the term total capital -- not excess capital -- but correct me if you're looking at it differently.

JAY GELLERT: Okay. To your first question, as we indicated, we're actively engaged in the process. We're encouraged by what we've seen to this point, and we're still on track as we articulated. I don't think we have anything more specific to say than that, other than to indicate that we believe that what we've talked about in the past is realistic.

With regard to capital, the capital that we're speaking about is excess in that it's not necessary to settle liabilities. It's not excess in terms of the regulatory requirements to operate the business. So, being very clear, there is that much more tangible equity than liability. So after you've paid out everything, you'd have that additional amount. But because of regulatory requirements, that amount is required if you are operating the business.

OPERATOR: Moving on to our next question, we have Carl McDonald from Oppenheimer.

CARL McDONALD: Thanks, just wanted to follow up on the divestiture process which is -- how do you think about the fixed costs that are currently allocated to the Northeast business... and Arizona for that matter. Assuming that the businesses do go away, how much of the administrative costs are you going to have to now allocate to the remaining West coast and TRICARE business?

JAY GELLERT: When we spoke about this, we said that we anticipated that if the company operated absent those two entities, it would be neutral to slightly accretive. That assumed absorbing some of the administrative costs and eliminating others, all of which we believe is realistic coincident with a transaction.

CARL McDONALD: And then if you're willing to say -- based on where you are in the process -- any indication in terms of total sale price? Will it be above or below that \$500 million number?

JAY GELLERT: As I said, I think we're encouraged by the process. I think it's premature to be specific on it. But I think that there's nothing that's happened to this point that's changed our expectations.

OPERATOR: And once again that is star one to ask a question.

We'll move on to our next question from Kyle Smith with Jefferies & Company.

KYLE SMITH: Hi, good morning. Two questions. First, I'm hearing that Medi-Cal may be considering a payment freeze or some other mechanism to help address California's rather severe budget challenges. How should we be thinking about the possible working capital pressures and risk factors to your '09 guidance that could arise from such an action?

JAY GELLERT: Well, the discussions that are going on in terms of the California state budget kind of bounce around in virtually every direction. There could be some limited cash flow effects as the state moves to resolve the budget. We generally think, though, that since the stimulus package has a significant amount of money to support the state in Medi-Cal, the increases in the federal matching amount, that while there could be some changes in the Medi-Cal program, they won't be nearly as dramatic as those being discussed by the state at this point, because it doesn't include consideration of stimulus. So, all in all, we've produced a budget that doesn't assume an increase in Medi-Cal payments. We believe that the cash flow issues are usually managed, and we think that the addition of stimulus will lead to kind of a reasonable conclusion on the Medi-Cal front.

KYLE SMITH: Okay -- great, that's helpful.

And then the second question with respect to your senior notes. Have you given thought to using your cash flows to make repurchases on the open market? They do trade at a rather large discount to par.

JAY GELLERT: I think that we're looking at all alternatives. We're considering all uses of our capital, but our first focus is response to the earlier questions, which is completing the proposed transactions, and then we'll consider any options at that point in time.

OPERATOR: And moving on to our next question, Joshua Raskin from Barclays Capital.

JOSHUA RASKIN: Hi - thanks, good morning.

Just shifting topics a little bit. I want to talk a little about the cost trend and yield expectations. It looked like both came down 25 to 50 basis points. I think you were saying 9 to 9.5, and now it's a lot more like 9 percent. I was wondering -- is it a mix issue because they are both moving, or have you seen a decrease in cost trends that suggested you should bring your yields down, or just curious what the driver was there?

JIM WOYS: Hi Josh. This is Jim. We're not expecting any change in trends, but what we have seen is a little more clarity into 2009, is around mix and buydowns, and so it's given us a little more clarity to drive that number to 9 percent, and 50 basis points below for the health care cost trend.

JOSHUA RASKIN: Your 9 percent includes buydowns?

JIM WOYS: Yes.

JOSHUA RASKIN: Okay, that helps. And then secondly, Jim, you had mentioned in your presentation -- your prepared remarks -- that you were seeing slightly better membership due to in-group growth. I was just curious if you could help us understand where that's coming based on the economic situation?

JIM WOYS: Well, when we look at the early look at January enrollment, what we've got is a better expectation, or less in-group losses, than what we expected. So we've had some in-group losses but they're much less than we expected. In some accounts we've actually had in-group growth, primarily in southern California.

OPERATOR: And we'll take our next question from Charles Boorady from Citi.

CHARLES BOORADY: Hi, thanks. Good morning. The first question just if you can update us on the key drivers of '09 EPS improvement or any changes from what you outlined at your Investor Day. You had a page that showed \$0.55 improvement for Medicare; \$0.25 worse SG&A; \$0.11 worse Medicaid; et cetera. I don't know if you have that slide in front of you, but if you could just outline for us the key drivers of the '09 EPS improvement.

JAY GELLERT: There really are no changes. We're still on track consistent with what we presented at our Investor Day.

CHARLES BOORADY: So the \$0.55 for Medicare -- that's something you're backing off from. I thought some comments suggested less improvement on the Medicare loss ratio...

JAY GELLERT: We have been talking about MA improvements of 150 bps, and Part D improvement of 500 bps, and we're comfortable with those.

CHARLES BOORADY: Then, in terms of the state budget shortfalls in California and New Jersey and elsewhere, how do you take those into consideration when considering your Medicaid results embedded in your guidance for 2009? Is minus \$0.11 for Medicaid still reasonable and does that take any new cuts into consideration?

JAY GELLERT: Yeah, I think we anticipated a negative Medicaid environment when we spoke in November. I believe, particularly in California, that as we've always said, it's the lowest cost Medicaid state in the nation, and it's a significant beneficiary of the FMAP changes included in stimulus. So, as a result of that, and the inherent conservatism we originally built in the plan, we feel comfortable with the Medicaid guidance we've given.

OPERATOR: And once again, that is star one to ask a question. And our next question is from Justin Lake from UBS.

JUSTIN LAKE: Thanks, good morning. I do have two questions. First, on the commercial membership guidance. Can you give us an idea of where you expect to end the first quarter from an enrollment standpoint?

JIM WOYS: I don't have that in front of me. Why don't you give us your next question, and we'll get that for you.

JUSTIN LAKE: Secondly, just a follow-up on the divestitures discussion. You mentioned the \$500 million of capital there, so I guess what you're saying is that if you were to just unwind those businesses and had reserved correctly, you'd be able to walk away with \$500 million. Is that correct?

JAY GELLERT: That's right, Justin. The entities have tangible equity assets in excess of liabilities of approximately that amount. And so in the case that you closed them down at this point in time, you'd have about that much of available liquid assets.

JUSTIN LAKE: And so, Jay, given the fact that you said there is a fair amount of interest in the assets right now and you're progressing, is it fair to say -- I know you don't want to speak specifically to what you'd get -- we shouldn't expect you to receive cash of anything less than that given that you could get that much from just walking away from the business.

JAY GELLERT: I don't want to comment on the situation, but I think that you can draw a conclusion based on kind of what I said about the specifics. The other point to bear in mind is that the tax basis is, in fact, higher than that. So you could end up taking 500 out even at a slightly lower number. I don't want to comment specifically on the process, but I think that the conclusion you are drawing is mathematically or analytically correct.

OPERATOR: And our final question comes from John Rex with J.P. Morgan.

JOHN REX: Thanks. I just wanted to go back to some of the enrollment metrics first. Could you give us a sizing of the turn in the individual book? In particular, I'm looking at commercial insured and Medicare Advantage. So maybe gross adds and gross losses as you went into January. So if you can just think about how the complexion of the books might change?

JIM WOYS: Let me give you sort of Medicare, so when we look at gross adds and gross losses around Medicare, we -- our gross adds in the MAPD, was about 16,700, and our gross turns was

about 24,200 for a loss of about 7,500 members, which is about 2,000 better than we expected. And that's in our network model product.

On Private Fee-for-Service, adds was about 2,800 and losses about 7,400, so a loss of about 3,600, which was worse than expected but okay because of where we were with that product.

PDP, I don't have the adds, but we're down about 100,000, but better than expected.

In our commercial book, January enrollment we said was better than expected and it's up by 10 to 12,000 members. I don't have the gross adds and gross -- all together. And if we look at the quarter, we're probably down about 2 percent.

JOHN REX: The 10 to 12 you said -- that was gross or net number?

JIM WOYS: That's a net number.

JOHN REX: Net number. Can you tell me -- any general sense on how much turnover there might have been in that book -- in the commercial book?

JIM WOYS: I don't have that with me. We can get back to you. We had -- I'm sure, the losses were greater than the adds, but we were about 12,000 -- 10 to 12,000 ahead of where we expected to be on January 1.

JOHN REX: Okay. I'm just trying to get a general sense of if the book looks very different than it did last year just in terms of the types of members -- the counts, where they are, or any kind of commentary like that.

JAY GELLERT: Let me try and make three general comments and then let Jim respond. Let me go one by one. In terms of Part D, as we've said all along, there is a pronounced reduction in the markets which were in economics, like we're no longer in them. And they're dual-eligible markets, so most of the churn in the reductions in terms of Part D occurred in specific targeted markets. We bid much higher because we had bad economic performance. That's why we have heightened confidence in our guidance. A classic example is Florida. It was a technical term, it was kind of a train wreck for us in terms of Part D, and we ended up bidding well above the dual numbers. So that's how Part D works.

In terms of Medicare, I think that we've -- the biggest changes in mixes are probably a movement, as Jim said, towards the West and towards network models, away from the East, and then we're probably beginning to see a better mix in Connecticut at a lower number. And that's kind of the initial indications that we're seeing in terms of the churn of the Medicare book and, as Jim said, a movement from Private Fee-for-Service to the MA product. So that's directionally where it's going.

In terms of the commercial mix, continued movement in California, from north to south, also movement from to some degree from east to west, and then the most important thing we're seeing is a movement towards products that are network products in lower cost areas, and narrow network products in particular. I think what we're seeing is the following -- that until about probably 12 months ago, we saw that people were making decisions I would say more on a premium basis. Now I think they are making decisions based on all end costs.

So there is a process going on where people are looking at what the aggregate cost is versus just purely the premium, that that's driving them towards tighter network products with, in some cases,

lower noninsured costs and that we're seeing that trend exacerbate some in our markets. That's the kind of the flow and flavor of the transition of our business.

OPERATOR: And once again, we ask that you please limit yourself to two questions per person. Again that is star one to ask a question. And our final question is from Greg Nersessian from Credit Suisse.

GREG NERSESSIAN: Thanks, good morning. My first question was just if you could give us a sense of what the contribution was in the quarter from the Northeast and the Arizona business?

JAY GELLERT: The Northeast and Arizona business was slightly negative in the quarter. It's probably in the range of single digit negative, all in --

GREG NERSESSIAN: Okay, that's helpful. If I heard you correctly, you sounded like you were maybe a little more confident that the TRICARE awards will be announced in the first half of the year. I guess is there any reason to think that the sale of Northeast and Arizona would be contingent on that decision or you might delay selling those businesses until after you find out the TRICARE?

JAY GELLERT: There's absolutely no correlation between the two. The TRICARE process would have absolutely no effect on our Northeast process. And Northeast to Arizona process.

Our view, whatever we do, we have to make some strategic decisions that let us get a return on that cash in the first half of the year. And so there's really no relationship to the TRICARE outcome.

OPERATOR: And as a final reminder, press star one to ask a question. And we have no further questions at this time.

ANGIE McCABE: All right. Well, I would like to thank everyone for joining us this morning, and we'll speak with you later. Have a nice day.

OPERATOR: That does conclude today's conference. Thank you for your participation. Have a nice day.

[END]