WELLPOINT INC
Form 10-Q
April 22, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended March 31, 2009

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission file number: 001-16751

WELLPOINT, INC.

(Exact name of registrant as specified in its charter)

INDIANA	**35-2145715**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)
120 MONUMENT CIRCLE;	
INDIANAPOLIS, INDIANA	**46204-4903**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (317) 488-6000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [X] Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Title of Each Class	**Outstanding at April 15, 2009**
Common Stock, $0.01 par value	484,639,194 shares

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WellPoint, Inc.

Quarterly Report on Form 10-Q

For the Period Ended March 31, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WellPoint, Inc.

Consolidated Balance Sheets

(In millions, except share data)	**March 31, 2009** (Unaudited)	**December 31, 2008**
Assets		
Current assets:		
Cash and cash equivalents	$ 2,378.1	$ 2,183.9
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $1,664.6 and $1,538.6)	1,774.2	1,564.8
Equity securities (cost of $951.9 and $1,293.0)	810.3	1,088.0
Other invested assets, current	16.8	23.6
Accrued investment income	164.6	172.8
Premium and self-funded receivables	3,525.4	3,042.9
Other receivables	1,400.5	1,373.9
Income tax receivable		159.9
Securities lending collateral	461.6	529.0
Deferred tax assets, net	730.8	779.0
Other current assets	1,220.9	1,212.2
Total current assets	12,483.2	12,130.0
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $13,031.7 and $12,401.3)	12,537.1	11,808.4
Equity securities (cost of $33.8 and $34.7)	29.0	30.7
Other invested assets, long-term	705.3	703.2
Property and equipment, net	1,051.8	1,054.5
Goodwill	13,460.3	13,461.3
Other intangible assets	8,761.7	8,827.2
Other noncurrent assets	386.4	387.9
Total assets	$ 49,414.8	$ 48,403.2
Liabilities and shareholders equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$ 6,168.0	$ 6,184.7
Reserves for future policy benefits	63.4	64.5
Other policyholder liabilities	1,677.7	1,626.8
Total policy liabilities	7,909.1	7,876.0
Unearned income	1,153.1	1,087.7
Accounts payable and accrued expenses	3,003.6	2,856.5
Income taxes payable	196.0	
Security trades pending payable	27.8	5.8
Securities lending payable	474.1	529.0
Short-term borrowings	100.0	98.0
Current portion of long-term debt	710.5	909.7
Other current liabilities	1,766.6	1,657.6
Total current liabilities	15,340.8	15,020.3
Long-term debt, less current portion	8,527.1	7,833.9
Reserves for future policy benefits, noncurrent	662.8	664.7
Deferred tax liabilities, net	2,118.5	2,098.9

Other noncurrent liabilities	1,257.6	1,353.7
Total liabilities	27,906.8	26,971.5
Commitments and contingencies Note 9		
Shareholders equity		
Preferred stock, without par value, shares authorized 100,000,000; shares issued and outstanding none		
Common stock, par value $0.01, shares authorized 900,000,000; shares issued and outstanding: 486,347,468 and 503,230,575	4.8	5.0
Additional paid-in capital	16,278.1	16,843.0
Retained earnings	5,970.6	5,479.4
Accumulated other comprehensive loss	(745.5)	(895.7)
Total shareholders equity	21,508.0	21,431.7
Total liabilities and shareholders equity	$ 49,414.8	$ 48,403.2

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Income

(Unaudited)

(In millions, except per share data)	Three Months Ended March 31	
	2009	**2008**
Revenues		
Premiums	$ 14,203.2	$ 14,234.4
Administrative fees	941.5	969.6
Other revenue	154.0	162.6
Total operating revenue	15,298.7	15,366.6
Net investment income	197.1	232.7
Net realized losses on investments	(352.5)	(45.6)
Total revenues	15,143.3	15,553.7
Expenses		
Benefit expense	11,588.2	12,116.5
Selling, general and administrative expense:		
Selling expense	432.0	444.3
General and administrative expense	1,933.1	1,804.3
Total selling, general and administrative expense	2,365.1	2,248.6
Cost of drugs	112.4	118.9
Interest expense	116.1	119.0
Amortization of other intangible assets	67.9	71.5
Total expenses	14,249.7	14,674.5
Income before income tax expense	893.6	879.2
Income tax expense	313.2	291.1
Net income	$ 580.4	$ 588.1
Net income per share		
Basic	$ 1.17	$ 1.08
Diluted	$ 1.16	$ 1.07

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In millions)	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Operating activities		
Net income	$ 580.4	$ 588.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized losses on investments	352.5	45.6
Loss on disposal of assets	0.3	0.2
Deferred income taxes	(10.5)	(6.0)
Amortization, net of accretion	109.6	118.9
Depreciation expense	26.1	25.8
Share-based compensation	24.8	37.0
Excess tax benefits from share-based compensation	(0.7)	(11.1)
Changes in operating assets and liabilities, net of effect of business combinations:		
Receivables, net	(486.1)	(454.0)
Other invested assets	13.8	22.3
Other assets	(7.5)	(135.8)
Policy liabilities	31.2	502.1
Unearned income	65.4	36.4
Accounts payable and accrued expenses	120.3	(48.3)
Other liabilities	16.8	23.6
Income taxes	347.1	289.0
Other, net	8.5	7.4
Net cash provided by operating activities	1,192.0	1,041.2
Investing activities		
Purchases of fixed maturity securities	(2,051.0)	(1,742.9)
Proceeds from fixed maturity securities:		
Sales	869.5	1,938.8
Maturities, calls and redemptions	289.5	642.7
Purchases of equity securities	(31.3)	(744.9)
Proceeds from sales of equity securities	168.4	377.4
Purchases of other invested assets	(18.8)	(61.8)
Proceeds from sales of other invested assets	0.9	18.3
Changes in securities lending collateral	54.9	97.5
Purchases of subsidiaries, net of cash acquired	(1.1)	(0.4)
Purchases of property and equipment	(68.9)	(79.0)
Proceeds from sales of property and equipment	0.2	4.5
Other, net	(3.2)	
Net cash (used in) provided by investing activities	(790.9)	450.2
Financing activities		
Net (repayments of) proceeds from commercial paper borrowings	(273.1)	188.1
Repayment of long-term borrowings	(228.1)	(2.7)
Proceeds from long-term borrowings	990.3	
Net proceeds from short-term borrowings	2.0	
Changes in securities lending payable	(54.9)	(97.5)
Changes in bank overdrafts	19.5	144.7

Repurchase and retirement of common stock	(681.2)	(2,008.6)
Proceeds from exercise of employee stock options and employee stock purchase plan	17.9	57.7
Excess tax benefits from share-based compensation	0.7	11.1
Net cash used in financing activities	(206.9)	(1,707.2)
Change in cash and cash equivalents	194.2	(215.8)
Cash and cash equivalents at beginning of period	2,183.9	2,767.9
Cash and cash equivalents at end of period	$ 2,378.1	$ 2,552.1

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Shareholders Equity

(Unaudited)

(In millions)	Common Stock				Accumulated	
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive (Loss) Income	Total Shareholders Equity
January 1, 2009	503.2	$ 5.0	$ 16,843.0	$ 5,479.4	$ (895.7)	$ 21,431.7
Net income				580.4		580.4
Change in net unrealized losses on investments					152.6	152.6
Change in net unrealized losses on cash flow hedges					(2.2)	(2.2)
Change in net periodic pension and postretirement costs					(0.2)	(0.2)
Comprehensive income						730.6
Repurchase and retirement of common stock	(17.7)	(0.2)	(591.8)	(89.2)		(681.2)
Issuance of common stock under employee stock plans, net of related tax benefits	0.8		26.9			26.9
March 31, 2009	486.3	$ 4.8	$ 16,278.1	$ 5,970.6	$ (745.5)	$ 21,508.0
January 1, 2008	556.2	$ 5.6	$ 18,441.1	$ 4,387.6	$ 156.1	$ 22,990.4
Net income				588.1		588.1
Change in net unrealized gains on investments					(161.3)	(161.3)
Change in net unrealized losses on cash flow hedges					(0.1)	(0.1)
Change in net periodic pension and postretirement costs					(0.8)	(0.8)
Comprehensive income						425.9
Repurchase and retirement of common stock	(29.7)	(0.3)	(988.1)	(1,020.2)		(2,008.6)
Issuance of common stock under employee stock plans, net of related tax benefits	1.5		97.7			97.7
Adoption of EITF 06-4				(1.3)		(1.3)
March 31, 2008	528.0	$ 5.3	$ 17,550.7	$ 3,954.2	$ (6.1)	$ 21,504.1

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2009

(In Millions, Except Per Share Data or Otherwise Stated Herein)

1. Organization

References to the terms we , our , us , WellPoint or the Company used throughout these Notes to Consolidated Financial Statements refer to WellPoint, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries.

We are the largest health benefits company in terms of medical membership in the United States, serving 34.6 medical members as of March 31, 2009. We offer a broad spectrum of network-based managed care plans to large and small employer, individual, Medicaid and senior markets. Our managed care plans include preferred provider organizations, or PPOs; health maintenance organizations, or HMOs; point-of-service, or POS, plans; traditional indemnity plans and other hybrid plans, including consumer-driven health plans, or CDHPs; hospital only and limited benefit products. In addition, we provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. We also provide an array of specialty and other products and services such as life and disability insurance benefits, pharmacy benefit management, or PBM, specialty pharmacy, dental, vision, behavioral health benefit services, radiology benefit management, analytics-driven personal health care guidance, long-term care insurance and flexible spending accounts. We are licensed to conduct insurance operations in all 50 states through our subsidiaries.

We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee for California and as the Blue Cross and Blue Shield, or BCBS, licensee for: Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as the BCBS licensee in 10 New York City metropolitan and surrounding counties, and as the Blue Cross or BCBS licensee in selected upstate counties only), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.) and Wisconsin. In a majority of these service areas we do business as Anthem Blue Cross, Anthem Blue Cross Blue Shield or Empire Blue Cross Blue Shield (in our New York service areas). We also serve customers throughout the country as UniCare.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair statement of the consolidated financial statements as of and for the three months ended March 31, 2009 and 2008 have been recorded. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008 included in our Form 10-K.

Certain prior year amounts have been reclassified to conform to the current year presentation.

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3. Investments

In accordance with Statement of Financial Accounting Standards (FAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, we classify the fixed maturity and equity securities in our investment portfolio as available-for-sale or trading and report those securities at fair value. We classify our investments in available-for-sale fixed maturity securities as either current or noncurrent assets based on their contractual maturities. Certain investments, which we intend to sell within the next twelve months, are carried as current without regard to their contractual maturities. Additionally, certain of our investments, which are used to satisfy contractual, regulatory or other requirements, continue to be classified as long-term, without regard to contractual maturity. The unrealized gains or losses on both our current and long-term fixed maturity and equity securities classified as available-for-sale are included in accumulated other comprehensive income as a separate component of shareholders equity, unless the decline in value is deemed to be other-than-temporary and we do not have the intent and ability to hold such securities until their full cost can be recovered, in which case such securities are written down to fair value and the loss is charged to net realized losses on investments. We evaluate our investment securities for other-than-temporary declines based on quantitative and qualitative factors. We recorded realized losses from other-than-temporary impairments of $305.0 and $76.9 for the three months ended March 31, 2009 and 2008, respectively. There were no individually significant other-than-temporary impairments of investments by issuer during the three months ended March 31, 2009. As of March 31, 2009, we had approximately $933.6 of gross unrealized losses on investments recognized in accumulated other comprehensive income, $773.8 of which related to fixed maturity securities and $159.8 of which related to equity securities. We continue to review our investment portfolios under our impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

In April 2009, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* or the FSP. The FSP is intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary impairment event and to more effectively communicate when an other-than-temporary impairment event has occurred. The FSP applies to fixed maturity securities only and requires separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell the security and it is more likely than not that an entity will not have to sell the security before recovery of its cost basis, it must recognize the credit component of an other-than-temporary impairment in earnings and the remaining portion in other comprehensive income. In addition, upon adoption of the FSP, an entity will be required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income. The FSP will be effective for us for the quarter ending June 30, 2009. We are currently evaluating the impact of adopting the FSP.

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4. Fair Value

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FAS 157, *Fair Value Measurements*, are as follows:

Level Input:	**Input Definition:**
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

A summary of fair value measurements by level for assets measured at fair value on a recurring basis is as follows:

	Level I	Level II	Level III	Total
March 31, 2009:				
Cash equivalents	$ 1,864.7	$	$	$ 1,864.7
Investments available-for-sale:				
Fixed maturity securities	536.1	13,458.5	316.8	14,311.4
Equity securities	788.9	43.8	6.6	839.3
Other invested assets, current	16.8			16.8
Securities lending collateral	208.4	253.2		461.6
Derivatives (reported with other noncurrent assets)		112.1		112.1
Total	$ 3,414.9	$ 13,867.6	$ 323.4	$ 17,605.9
December 31, 2008:				
Cash equivalents	$ 1,544.0	$	$	$ 1,544.0
Investments available-for-sale:				
Fixed maturity securities	309.9	12,716.8	346.5	13,373.2
Equity securities	1,029.7	77.8	11.2	1,118.7
Other invested assets, current	23.6			23.6
Securities lending collateral	235.5	293.5		529.0
Derivatives (reported with other noncurrent assets)		122.1		122.1
Total	$ 3,142.7	$ 13,210.2	$ 357.7	$ 16,710.6

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level III inputs is as follows:

	Level III Fair Value Measurements		
	Fixed Maturity Securities	Equity Securities	Total
Three Months Ended March 31, 2009:			
Beginning balance at January 1, 2009	$ 346.5	$ 11.2	$ 357.7
Total gains (losses)			
Realized in net income	(32.9)	(0.4)	(33.3)
Unrealized in accumulated other comprehensive income	4.0	0.7	4.7
Purchases, sales, issuances and settlements, net	(18.5)	(4.9)	(23.4)
Transfers into Level III	18.9		18.9
Transfers out of Level III	(1.2)		(1.2)
Ending balance at March 31, 2009	$ 316.8	$ 6.6	$ 323.4
Change in unrealized gains (losses) included in net income related to assets still held for the three months ended March 31, 2009	$	$	$
Three Months Ended March 31, 2008:			
Beginning balance at January 1, 2008	$ 0.9	$ 6.1	$ 7.0
Total gains (losses)			
Realized in net income			
Unrealized in accumulated other comprehensive income			
Purchases, sales, issuances and settlements, net			
Transfers into Level III	257.0		257.0
Ending balance at March 31, 2008	$ 257.9	$ 6.1	$ 264.0
Change in unrealized gains (losses) included in net income related to assets still held for the three months ended March 31, 2008	$	$	$

During the first quarter of 2009 and 2008, certain mortgage-backed and asset-backed securities were thinly traded due to concerns in the securities markets and resulting lack of liquidity. Consequently, observable inputs were not always available and the fair values of these securities were estimated using internal estimates for inputs including, but not limited to, prepayment speeds, credit spreads, default rates and benchmark yields.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). There were no assets or liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 2009.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* or FSP 157-4. FSP 157-4 provides additional authoritative guidance to assist both issuers and users of financial statements in determining whether a market is active or inactive, and whether a transaction is distressed. The FSP will be effective for us for the quarter ending June 30, 2009. We do not expect the adoption of FSP 157-4 to have a material impact on our consolidated financial position and results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, or FSP 107-1 and APB 28-1. FSP 107-1 and APB 28-1 requires disclosures about fair

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value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 and APB 28-1 will be effective for us for the quarter ending June 30, 2009. The adoption of FSP 107-1 and APB 28-1 will not have an impact on our consolidated financial position and results of operations.

5. Income Taxes

As of March 31, 2009, as further described below, certain of our tax years are being examined by the Internal Revenue Service, or IRS, and various state and local authorities. In addition, we continue to discuss certain industry issues with the IRS.

As of March 31, 2009, the examinations of our 2007, 2006, 2005 and 2004 tax years are nearing conclusion. In addition, there are several years with ongoing disputes related to pre-acquisition companies that are nearing conclusion. Many of the issues in open tax years have been resolved; however, several of the examinations still require approval from the Joint Committee on Taxation before they can be finalized.

During the three months ended March 31, 2009 and 2008, we recognized income tax expense of $313.2 and $291.1, respectively, which represents effective tax rates of 35.0% and 33.1%, respectively. The 190 basis point increase in the effective tax rate in 2009 was primarily due to settlements of audit issues and associated amounts during 2008. Our anticipated full year effective tax rate is expected to be 35.2%, based on our projections, and includes the anticipated impact of recently adopted New York legislation. During April 2009, the New York state legislature passed provisions, retroactive to January 1, 2009, that will require us to pay additional premium taxes in that state while reducing state income tax payments.

6. Derivative Instruments and Hedging Activities

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or FAS 161. FAS 161 requires expanded disclosures regarding the location and amounts of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, or FAS 133, and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. We adopted FAS 161 on January 1, 2009. The adoption of FAS 161 did not have an impact on our consolidated financial position and results of operations.

In accordance with FAS 133, all investments in derivatives are recorded as assets or liabilities at fair value. A derivative is typically defined as an instrument whose value is derived from an underlying instrument, index or rate, has a notional amount, requires little or no initial investment and can be net settled. We typically invest in the following types of derivative financial instruments: interest rate swaps, forward contracts, call options, credit default swaps, embedded derivatives and warrants. Derivatives embedded within non-derivative instruments (such as options embedded in convertible fixed maturity securities) are bifurcated from the host instrument when the embedded derivative is not clearly and closely related to the host instrument.

Our use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which we are subject, and by our own derivative policy.

We have exposure to economic losses due to interest rate risk arising from changes in the level or volatility of interest rates. We attempt to mitigate our exposure to interest rate risk through active portfolio management, which includes rebalancing our existing portfolios of assets and liabilities, as well as changing the characteristics of investments to be purchased or sold in the future. In addition, derivative financial instruments are used to modify the interest rate exposure of certain liabilities or forecasted transactions. These strategies include the use of interest rate swaps and forward contracts, which are used to lock interest rates or to hedge (on an economic

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basis) interest rate risks associated with variable rate debt. We have used these types of instruments as designated hedges against specific liabilities.

If certain correlation, hedge effectiveness and risk reduction criteria are met, a derivative may be specifically designated as a hedge of exposure to changes in fair value or cash flow. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the nature of any hedge designation thereon. Amounts excluded from the assessment of hedge effectiveness, if any, as well as the ineffective portion of the gain or loss, are reported in results of operations immediately. If the derivative is not designated as a hedge, the gain or loss resulting from the change in the fair value of the derivative is recognized in results of operations in the period of change.

We discontinue hedge accounting prospectively when it is determined that one of the following has occurred: (i) the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; (iii) the derivative is no longer designated as a hedge instrument because it is unlikely that a forecasted transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) we otherwise determine that the designation of the derivative as a hedge instrument is no longer appropriate.

If hedge accounting is discontinued, the derivative will continue to be carried in our consolidated balance sheets at its fair value. When hedge accounting is discontinued because the derivative no longer qualifies as an effective fair value hedge, the related hedged asset or liability will no longer be adjusted for fair value changes. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the accumulated unrealized gains and losses included in accumulated other comprehensive income will be recognized immediately in results of operations. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, any asset or liability that was recorded pursuant to the firm commitment will be removed from the balance sheet and recognized as a gain or loss in current period results of operations. In all other situations in which hedge accounting is discontinued, changes in the fair value of the derivative are recognized in current period results of operations.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the consolidated balance sheets. We attempt to mitigate the risk of non-performance by selecting counterparties with high credit ratings and monitoring their creditworthiness and by diversifying derivatives among multiple counterparties. At March 31, 2009, we believe there were no material concentrations of credit risk with any individual counterparty.

Our derivative agreements do not contain any credit support provisions that require us to post collateral if there are declines in the derivative value or our credit rating.

The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these instruments. Interest rates and equity prices may affect the fair value of derivatives. The fair values generally represent the estimated amounts that we would expect to receive or pay upon termination of the contracts at the reporting date. Fair values of options embedded in convertible debt securities are generally based on quoted market prices in active markets. Fair values of interest rate swaps are based on the quoted market prices by the financial institution that is the counterparty to the swap. We independently verify prices provided by the counterparties using valuation models that incorporate market observable inputs for similar interest rate swaps.

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A summary of the aggregate contractual or notional amounts, balance sheet location and estimated fair values of derivative financial instruments at March 31, 2009 is as follows:

	Contractual/ Notional Amount	Balance Sheet Location	Estimated Fair Value Asset	Estimated Fair Value (Liability)
Hedging instruments				
Swaps	$ 880.0	Other noncurrent assets	$ 112.1	$
Non-hedging instruments				
Derivatives embedded in convertible debt securities	301.5	Fixed maturity securities	52.9	
Credit default swaps	13.6	Fixed maturity securities	3.8	
Options		Equity securities	0.2	
Futures		Equity securities	4.2	
Subtotal non-hedging	315.1		61.1	
Total derivatives	$ 1,195.1		$ 173.2	$

Fair Value Hedges

During the year ended December 31, 2006, we entered into two fair value hedges with a total notional value of $440.0. The first hedge is a $240.0 notional amount interest rate swap agreement to receive a fixed 6.800% rate and pay a LIBOR-based floating rate and expires on August 1, 2012. The second hedge is a $200.0 notional amount interest rate swap agreement to receive a fixed 5.000% rate and pay a LIBOR-based floating rate and expires on December 15, 2014.

During the year ended December 31, 2005, we entered into two fair value hedges with a total notional value of $660.0, which was subsequently reduced to $440.0 during 2008. The first hedge is a $240.0 notional amount interest rate swap agreement to exchange a fixed 6.800% rate for a LIBOR-based floating rate and expires on August 1, 2012. The second hedge is a $200.0 notional amount interest rate swap agreement to exchange a fixed 5.000% rate for LIBOR-based floating rate and expires December 15, 2014.

A summary of the effect of fair value hedges on our income statement for the three months ended March 31, 2009 is as follows:

Type of Fair Value Hedge	Income Statement Location of Derivative Gain (Loss)	Hedge Gain (Loss) Recognized	Hedged Item	Income Statement Location of Hedged Item Gain (Loss)	Hedged Item Gain (Loss) Recognized
Swaps	Interest expense	$ 8.1	Fixed rate debt	Interest expense	$ (8.1)

Cash Flow Hedges

In January 2009, we entered into forward starting pay fixed swaps with an aggregate notional amount of $800.0. The objective of these hedges was to eliminate the variability of cash flows in the interest payments on the debt securities issued in February 2009. These swaps were terminated in February 2009, and we paid a net $3.2, the net fair value at the time of termination. In addition, we recorded a loss of $2.1, net of tax, in other comprehensive income. Following the February 5, 2009 issuance of debt securities, the unamortized fair value of the forward starting pay fixed swaps included in accumulated other comprehensive income began amortizing into earnings, as an increase to interest expense. In addition, we have amounts recorded in accumulated other comprehensive income for certain forward starting pay fixed swaps that were terminated in prior years. The hedged debt securities have maturity dates ranging from 2009 to 2036.

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The unrecognized losses for all cash flow hedges included in accumulated other comprehensive income at March 31, 2009 and December 31, 2008 were $10.7 and $8.5, respectively. As of March 31, 2009, the total amount of amortization over the next twelve months for all cash flow hedges will increase interest expense by approximately $0.3.

A summary of the effect of cash flow hedges on our financial statements for the three months ended March 31, 2009 is as follows:

		Effective Portion		Ineffective Portion	
Type of Cash Flow Hedge	Pretax Hedge Gain (Loss) Recognized in Other Comprehensive Income	Income Statement Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Hedge Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Income Statement Location of Gain (Loss) Recognized	Hedge Gain (Loss) Recognized
Forward starting pay fixed swaps	$ (3.2)	Interest expense	$ 0.1	None	$

We test for cash flow hedge effectiveness at hedge inception and re-assess at the end of each reporting period. No amounts were excluded from the assessment of hedge effectiveness.

Non-Hedging Derivatives

A summary of the effect of non-hedging derivatives on our income statement for the three months ended March 31, 2009 is as follows:

Type of Non-hedging Derivatives	Income Statement Location of Gain (Loss) Recognized	Derivative Gain (Loss) Recognized
Derivatives embedded in convertible debt securities	Net realized gain (loss) on investments	$ 9.4
Credit default swaps	Net realized gain (loss) on investments	2.0
Options	Net realized gain (loss) on investments	2.8
Futures	Net realized gain (loss) on investments	(3.4)
Total		$ 10.8

7. Retirement Benefits

The components of net periodic benefit (credit) cost included in the consolidated statements of income for the three months ended March 31, 2009 and 2008 are as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$ 5.5	$ 7.6	$ 1.8	$ 1.5
Interest cost	22.7	24.9	7.9	8.2
Expected return on assets	(35.5)	(38.7)	(0.6)	(0.9)
Recognized actuarial loss	0.6		1.7	1.3
Amortization of prior service credit	(0.2)	(0.2)	(2.4)	(2.4)

Net periodic benefit (credit) cost	$ (6.9)	$ (6.4)	$ 8.4	$ 7.7

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For the year ending December 31, 2009, no material contributions are expected to be necessary to meet the Employee Retirement Income Securities Act, or ERISA, required funding levels; however, we may elect to make discretionary contributions up to the maximum amount deductible for income tax purposes. No contributions to retirement benefit plans were made during the three months ended March 31, 2009.

8. Debt

In March 2009, we repurchased $400.0 of our $1,090.0 face value due at maturity zero coupon notes. The notes were issued in August 2007 in a private placement transaction. We paid cash of $199.3 to repurchase the notes, which have a remaining carrying value of $342.2 at March 31, 2009 and are classified in current portion of long-term debt.

On February 5, 2009, we issued $400.0 of 6.000% notes due 2014 and $600.0 of 7.000% notes due 2019 under our shelf registration statement. The proceeds from this debt issuance are expected to be used for general corporate purposes, including, but not limited to, repayment of current maturities of long-term debt and repurchasing shares of our common stock. The notes have a call feature that allows us to repurchase the notes at any time at our option and a put feature that allows a note holder to require us to repurchase the notes upon the occurrence of both a change of control event and a downgrade of the notes.

We have a senior revolving credit facility, or the facility, with certain lenders for general corporate purposes. The facility, as amended, provides credit up to $2,392.0, which matures on September 30, 2011. The interest rate on this facility is based on either (i) the LIBOR rate plus a predetermined percentage rate based on our credit rating at the date of utilization, or (ii) a base rate as defined in the facility agreement. Our ability to borrow under this facility is subject to compliance with certain covenants. There were no amounts outstanding under this facility as of March 31, 2009 or during the three months then ended. At March 31, 2009, we had $2,392.0 available under this facility.

We have an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. At March 31, 2009, we had $624.5 outstanding under this program. Commercial paper borrowings have been classified as long-term debt at March 31, 2009 and December 31, 2008 in accordance with FAS 6, *Classification of Short-Term Obligations Expected to be Refinanced*, as our practice and intent is to replace short-term commercial paper outstanding at expiration with additional short-term commercial paper for an uninterrupted period extending for more than one year or our ability to redeem our commercial paper with borrowings under the senior credit facility described above.

We are a member of the Federal Home Loan Bank of Indianapolis, or FHLBI, and as a member we have the ability to obtain cash advances subject to certain requirements. In order to obtain cash advances, we are required to pledge securities as collateral to the FHLBI, initially equal to a certain percentage of the cash borrowings, depending on the type of securities pledged as collateral. The market value of the collateral is monitored daily by the FHLBI, and if it falls below the required percentage of the cash borrowings, we are required to pledge additional securities as collateral or repay a portion of the outstanding cash advance balance. In addition, our borrowings cannot exceed twenty times our investment in FHLBI common stock. Our investment in FHLBI common stock at March 31, 2009 totaled $5.0, which is reported in Investments available-for-sale Equity securities on the consolidated balance sheets. At March 31, 2009, $100.0 of cash advances from the FHLBI was outstanding and is reported in Short-term borrowings on the consolidated balance sheets. Securities, primarily certain U.S. government sponsored mortgage-backed securities, with a fair value of $123.4 at March 31, 2009 have been pledged as collateral. The securities pledged are reported in Investments available-for-sale Fixed maturity securities on the consolidated balance sheets.

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9. Commitments and Contingencies

Litigation

In July 2005, we entered into a settlement agreement with representatives of more than 700,000 physicians nationwide to resolve certain cases brought by physicians. The cases resolved were known as the CMA Litigation, the Shane Litigation, the Thomas Litigation (Kenneth Thomas, M.D., et al. vs. Blue Cross Blue Shield Association, et al.) and certain other similar cases brought by physicians. Final monetary payments were made in October 2006. Following its acquisition in 2005, WellChoice was merged with and into a wholly-owned subsidiary of WellPoint. Since the WellChoice transaction closed on December 28, 2005, after we reached settlement with the plaintiffs, WellChoice continued to be a defendant in the Thomas (now known as Love) Litigation and was not affected by the prior settlement between us and plaintiffs. The Love Litigation alleged that the BCBSA and the Blue Cross and Blue Shield plans violated the Racketeer Influenced and Corrupt Organizations Act, or RICO. On April 27, 2007, we, along with 22 other Blue Cross and Blue Shield plans and the BCSBA, announced a settlement of the Love Litigation. The Court granted final approval of the settlement on April 20, 2008. An appeal of the settlement remains. The settlement will not have a material effect on our consolidated financial position or results of operations.

Prior to the acquisition of WellPoint Health Networks Inc., or WHN, the group benefit operations, or GBO, of John Hancock Mutual Life Insurance Company, or John Hancock, John Hancock entered into a number of reinsurance arrangements, including with respect to personal accident insurance and the occupational accident component of workers compensation insurance, a portion of which was originated through a pool managed by Unicover Managers, Inc. Under these arrangements, John Hancock assumed risks as a reinsurer and transferred certain of such risks to other companies. Similar reinsurance arrangements were entered into by John Hancock following WHN s acquisition of the GBO of John Hancock. These various arrangements have become the subject of disputes, including a number of legal proceedings to which John Hancock is a party. We were in arbitration with John Hancock regarding these arrangements. The arbitration panel s Phase I ruling addressed liability. In April 2007, the arbitration panel issued a Phase II ruling stating the amount we owe to John Hancock for losses and expenses John Hancock paid through June 30, 2006. The panel further outlined a process for determining our liability for losses and expenses paid after June 30, 2006, which liability has not yet been determined. We filed a Petition to Confirm, which was granted by the Court. John Hancock filed a notice of appeal with the Seventh Circuit Court of Appeals. The matter has been fully briefed and is pending before the Seventh Circuit Court of Appeals. We believe that the liability that may result from this matter is unlikely to have a material adverse effect on our consolidated financial condition or results of operations.

In various California state courts, we are defending a number of individual lawsuits, including one filed by the Los Angeles City Attorney, and four purported class actions alleging the wrongful rescission of individual insurance policies. The suits name WellPoint as well as Blue Cross of California, or BCC, and BC Life & Health Insurance Company, or BCL&H (which name changed to Anthem Blue Cross Life and Health Insurance Company in July 2007), both WellPoint subsidiaries. The lawsuits generally allege breach of contract, bad faith and unfair business practices in a purported practice of rescinding new individual members following the submission of large claims. The parties have agreed to mediate most of these lawsuits and the mediation has resulted in the resolution of some of these lawsuits. In addition, the California Department of Managed Health Care and California Department of Insurance conducted investigations of the allegations. In June 2007, the California Department of Insurance issued its final report in which it issued a number of citations alleging violations of fair-claims handling laws.

In various California state courts, several hospitals have filed suits against BCC and WHN for payment of claims denied where the member s insurance policy was rescinded. In addition, a purported class action has been filed against BCC, BCL&H and WHN in a California state court on behalf of hospitals. This suit also seeks to recover for payment of claims denied where the member was rescinded.

On July 11, 2008, preliminary approval of a class settlement was granted by the court in the purported class actions filed in California state court against BCC, BCL&H and WHN on behalf of California hospitals. The settlement with the hospital plaintiffs received final approval on October 6, 2008. On July 17, 2008 a settlement was reached with the California Department of Managed Health Care regarding the Department s investigation of rescission practices. Pursuant to the settlement, BCC will offer prospective coverage, without medical underwriting, to approximately 1,770 rescinded members. BCC also agreed to a procedure whereby these individuals could, under certain circumstances, be reimbursed for past medical expenses. BCC also agreed to pay a $10.0 fine, which was paid on August 12, 2008. On February 10, 2009, a settlement was reached with the California Department of Insurance regarding its audit of rescission practices. Pursuant to the settlement, BCL&H will offer prospective coverage, without medical underwriting, to approximately 2,330 former insureds. BCL&H also agreed to reimburse eligible out of pocket medical expenses of the former insureds. BCL&H also agreed to pay a $1.0 fine. None of these settlements, individually or collectively, is expected to have a material adverse effect on our consolidated financial condition or results of operations.

On February 12, 2008, Empire Blue Cross Blue Shield, along with 15 other health benefit companies, was served with a subpoena by the New York Attorney General. The subpoena was part of an industry-wide investigation of how insurance companies use databases maintained by Ingenix, Inc., or Ingenix, a wholly-owned subsidiary of UnitedHealth Group, in determining out-of network reimbursement. Since the beginning of the investigation, we have been cooperating fully with the Attorney General s office and have complied with the Attorney General s requests for information regarding out-of-network reimbursement in New York. On February 18, 2009, we announced that we have reached an agreement with the New York Attorney General regarding the manner in which out-of-network reimbursement to providers will be determined. We have agreed to discontinue the use of the Ingenix database, which some of our subsidiaries use in determining out-of-network reimbursement for certain products and in certain states. We also have agreed to contribute $10.0 towards the funding of a not-for profit entity that will develop a database of provider charges that can be accessed both by health care plans and their members. The settlement will not have a material effect on our consolidated financial position or results of operations.

We currently are a defendant in five putative class actions relating to out-of-network reimbursement. The first lawsuit (*American Dental Association v. WellPoint Health Networks, Inc. and Blue Cross of California*) was brought in March 2002 by the American Dental Association and three individual dentists on behalf of a putative class of out-of-network dentists. The suit is currently pending in the United States District Court for the Southern District of Florida. The plaintiffs in that lawsuit allege that the defendants breached the plaintiffs patients rights under their ERISA health plans by paying out-of-network dental providers less than both the usual and customary allowances for services and the dentists billed charges. The second lawsuit (*Darryl and Valerie Samsell v. WellPoint, Inc., WellPoint Health Networks, Inc. and Anthem, Inc.*) was filed in February 2009 by two former members on behalf of a putative class of members who received out-of-network services for which the defendants paid less than billed charges. The suit is currently pending in the United States District Court for the District of New Jersey. The plaintiffs in that case allege that the defendants violated RICO, the Sherman Antitrust Act, ERISA, and federal regulations by relying on databases provided by Ingenix in determining out-of-network reimbursement. The third lawsuit (*AMA et al. v. WellPoint, Inc.)* was brought in March 2009 by the American Medical Association, four state medical associations and two individual physicians on behalf of a putative class of out-of-network physicians. The suit is currently pending in the United States District Court for the Central District of California. The fourth lawsuit (*Roberts v. UnitedHealth Group, Inc. et al.)* was brought in March 2009 by a WellPoint member as a putative class action on behalf of all persons or entities who have paid premiums for out-of-network health insurance coverage. The suit is currently pending in the United States District Court for the Central District of California. The fifth lawsuit *(JBW v. UnitedHealth Group, Inc. et al.)* was brought in April 2009 by a WellPoint member as a putative class action on behalf of all persons who have paid premiums for out-of-network health insurance coverage. The suit is currently pending in the United States District Court for the Central District of California. We intend to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

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Other Contingencies

From time to time, we and certain of our subsidiaries are parties to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. We, like HMOs and health insurers generally, exclude certain health care and other services from coverage under our HMO, PPO and other plans. We are, in the ordinary course of business, subject to the claims of our enrollees arising out of decisions to restrict or deny reimbursement for uncovered services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on us. In addition, the risk of potential liability under punitive damage theories may increase significantly the difficulty of obtaining reasonable settlements of coverage claims.

In addition to the lawsuits described above, we are also involved in other pending and threatened litigation of the character incidental to our business transacted, arising out of our operations, our 2001 demutualization and our revision of earnings guidance in 2008, and are from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits and reviews include routine and special investigations by state insurance departments, state attorneys general and the U.S. Attorney General. Such investigations could result in the imposition of civil or criminal fines, penalties and other sanctions. We believe that any liability that may result from any one of these actions, or in the aggregate, is unlikely to have a material adverse effect on our consolidated financial position or results of operations.

Contractual Obligations and Commitments

On March 31, 2009, we entered into an agreement with Affiliated Computer Services, Inc. to provide certain print and mailroom services that were previously performed in-house. Our commitment under this agreement at March 31, 2009 was $440.0 over a seven year period.

We have entered into certain agreements with International Business Machines Corporation to provide information technology infrastructure services. These services were previously performed in-house. Our remaining commitment under these contracts at March 31, 2009 is approximately $822.6 over a four year period. We have the ability to terminate these agreements upon the occurrence of certain events, subject to certain early termination fees.

10. Capital Stock

Stock Repurchase Program

Under our Board of Directors authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing market prices, subject to certain restrictions on volume, pricing and timing. The repurchases are effected from time to time in the open markets through negotiated transactions and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the three months ended March 31, 2009, we repurchased and retired approximately 17.7 shares at an average per share price of $38.55, for an aggregate cost of $681.2. During the three months ended March 31, 2008, we repurchased and retired approximately 29.7 shares at an average per share price of $67.64, for an aggregate cost of $2,008.6. The excess of cost of the repurchased shares over par value is charged on a pro rata basis to additional paid-in capital and retained earnings. On March 5, 2009, our Board of Directors authorized an increase of $1,500.0 in our stock repurchase program. As of March 31, 2009, $1,841.0 remained authorized for future repurchases. Subsequent to March 31, 2009, we repurchased and retired approximately 1.7 shares for an aggregate cost of approximately $66.2, leaving approximately $1,774.8 for authorized future repurchases at April 15, 2009. Our stock purchase program is discretionary as we are under no obligation to repurchase shares. We repurchase shares under the program when we believe it is a prudent use of capital.

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Stock Incentive Plans

A summary of stock option activity for the three months ended March 31, 2009 is as follows:

	Number of Shares	Weighted-Average Option Price per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	24.2	$ 62.36		
Granted	6.7	30.15		
Exercised	(0.3)	20.41		
Forfeited or expired	(0.5)	68.34		
Outstanding at March 31, 2009	30.1	55.43	5.8	$ 90.1
Exercisable at March 31, 2009	18.1	60.25	5.2	$ 33.8

A summary of the status of nonvested restricted stock activity, including restricted stock units, for the three months ended March 31, 2009 is as follows:

	Restricted Stock Shares And Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at January 1, 2009	1.3	$ 71.15
Granted	3.8	30.19
Vested	(0.5)	30.32
Forfeited		
Nonvested at March 31, 2009	4.6	36.69

11. Earnings per Share

The denominator for basic and diluted earnings per share for the three months ended March 31, 2009 and 2008 is as follows:

	Three Months Ended March 31	
	2009	2008
Denominator for basic earnings per share weighted average shares	496.0	542.7
Effect of dilutive securities employee and director stock options and non-vested restricted stock awards	2.2	4.9
Denominator for diluted earnings per share	498.2	547.6

During the three months ended March 31, 2009 and 2008, weighted average shares related to certain stock options of 21.1 and 11.6, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

During the three months ended March 31, 2009, we issued approximately 3.8 restricted stock units under our stock incentive plans, 0.7 of whose vesting is contingent upon us meeting specified annual operating gain targets for 2009. The 0.7 restricted stock units have been excluded from the denominator for diluted earnings per share and will be included only if and when the contingency is met.

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12. Segment Information

Based on our organizational structure, we are organized around three reportable segments: Commercial, Consumer and Other. Our Commercial and Consumer segments both offer a diversified mix of managed care products, including PPOs, HMOs, traditional indemnity benefits and POS plans, as well as a variety of hybrid benefit plans, including CDHPs, hospital only and limited benefit products.

Our Commercial segment includes Local Group (including UniCare), National Accounts and certain other ancillary business operations (dental, vision, life and disability and workers compensation). Business units in the Commercial segment offer fully-insured products and provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services.

Our Consumer segment includes Senior, State-Sponsored and Individual business. Senior business includes services such as Medicare Part D, Medicare Advantage, and Medicare Supplement, while State-Sponsored business includes our managed care alternatives for the Medicaid and State Children s Health Insurance Plan programs.

Our Other segment includes the Comprehensive Health Solutions Business unit, or CHS, that brings together our resources focused on optimizing the quality of health care and cost of care management. CHS includes provider relations, care and disease management, employee assistance programs, including behavioral health, radiology benefit management, analytics-driven personal health care guidance and our PBM business, which includes NextRx, and our specialty pharmacy, PrecisionRx Specialty Solutions. Our Other segment also includes results from our Federal Government Solutions, or FGS, business. FGS business includes the Federal Employee Program and National Government Services, Inc., which acts as a Medicare contractor in several regions across the nation. The Other segment also includes other businesses that do not meet the quantitative thresholds for an operating segment as defined in FAS 131, *Disclosures about Segments of an Enterprise and Related Information*, as well as intersegment sales and expense eliminations and corporate expenses not allocated to the other reportable segments.

On April 13, 2009 we announced that we entered into a definitive agreement to sell our NextRx subsidiaries to Express Scripts, Inc., or Express Scripts, one of the largest PBM companies in North America, for $4,675.0, consisting of at least $3,275.0 in cash, subject to customary working capital and indebtedness adjustments, and the balance in Express Scripts common stock. In connection with the agreement, at closing, we will enter into a 10-year contract for Express Scripts to provide PBM services to us following the close of the transaction. The transaction is expected to close in the second half of 2009, subject to, customary closing conditions, the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and any other required regulatory approvals. Our NextRx subsidiaries, for purposes of this transaction, had total assets of $1.7 billion at both March 31, 2009 and December 31, 2008, and total liabilities of $1.1 billion at both March 31, 2009 and December 31, 2008. Assets primarily include rebates receivable from pharmaceutical manufacturers, intercompany receivables and prescription drug inventories. Liabilities primarily include rebates payable, both to WellPoint affiliated health plans as well as other unaffiliated health plans.

As of December 31, 2008, we had a liability of $36.7 for future payments of employee termination costs related to cost-reduction initiatives implemented during 2008. We released $1.6 of the liability and made payments of $4.3 during the three months ended March 31, 2009 related to these employee termination costs. As of March 31, 2009, a liability of $30.8 remained for future payments of employee termination costs.

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Financial data by reportable segment for the three months ended March 31, 2009 and 2008 is as follows:

	Commercial	Consumer	Other and Eliminations	Total
Three Months Ended March 31, 2009				
Operating revenue from external customers	$ 9,367.5	$ 4,035.4	$ 1,895.8	$ 15,298.7
Intersegment revenue			715.2	715.2
Elimination of intersegment revenue			(715.2)	(715.2)
Operating gain	902.7	218.7	111.6	1,233.0
Three Months Ended March 31, 2008				
Operating revenue from external customers	$ 9,488.2	$ 4,100.0	$ 1,778.4	$ 15,366.6
Intersegment revenue			613.5	613.5
Elimination of intersegment revenue			(613.5)	(613.5)
Operating gain (loss)	908.8	(120.2)	94.0	882.6

A reconciliation of reportable segments operating revenues to total revenues reported in the consolidated statements of income for the three months ended March 31, 2009 and 2008 is as follows:

	Three Months Ended March 31	
	2009	2008
Reportable segments operating revenues	$ 15,298.7	$ 15,366.6
Net investment income	197.1	232.7
Net realized losses on investments	(352.5)	(45.6)
Total revenues	$ 15,143.3	$ 15,553.7

A reconciliation of reportable segments operating gain to income before income tax expense included in the consolidated statements of income for the three months ended March 31, 2009 and 2008 is as follows:

	Three Months Ended March 31	
	2009	2008
Reportable segments operating gain	$ 1,233.0	$ 882.6
Net investment income	197.1	232.7
Net realized losses on investments	(352.5)	(45.6)
Interest expense	(116.1)	(119.0)
Amortization of other intangible assets	(67.9)	(71.5)
Income before income tax expense	$ 893.6	$ 879.2

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to the terms we , our or us used throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, refer to WellPoint, Inc., an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries.

Certain prior year amounts have been reclassified to conform to current year presentation.

The structure of our MD&A is as follows:

I. Executive Summary

II. Overview

III. Significant Transactions

IV. Membership March 31, 2009 Compared to March 31, 2008

V. Cost of Care

VI. Results of Operations Three Months Ended March 31, 2009 Compared to the Three Months Ended March 31, 2008

VII. Critical Accounting Policies and Estimates

VIII. Liquidity and Capital Resources

IX. Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This MD&A should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2008 and the MD&A included in our 2008 Form 10-K, and in conjunction with our unaudited consolidated financial statements and accompanying notes as of and for the three months ended March 31, 2009 included in this Form 10-Q. Results of operations, cost of care trends, investment yields and other measures for the three month period ended March 31, 2009 are not necessarily indicative of the results and trends that may be expected for the full year ending December 31, 2009.

I. Executive Summary

We are the largest health benefits company in terms of medical membership in the United States, serving 34.6 million medical members as of March 31, 2009. We are an independent licensee of the Blue Cross and Blue Shield Association, or BCBSA, an association of independent health benefit plans. We serve our members as the Blue Cross licensee in California and as the Blue Cross and Blue Shield, or BCBS, licensee for: Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as BCBS in 10 New York City metropolitan and surrounding counties, and as Blue Cross or BCBS in selected upstate counties only), Ohio, Virginia (excluding Northern Virginia suburbs of Washington, D.C.) and Wisconsin. In a majority of these service areas we do business as Anthem Blue Cross, Anthem Blue Cross Blue Shield or Empire Blue Cross Blue Shield (in our New York service areas). We also serve customers throughout the country as UniCare. We are licensed to conduct insurance operations in all 50 states through our subsidiaries.

Operating revenue for the three months ended March 31, 2009 was $15.3 billion, a decrease of $0.1 billion, or less than 1%, over the three months ended March 31, 2008. This decrease was primarily due to fully-insured membership declines in our Local Group and UniCare businesses and our exit from the Ohio Medicaid programs. These decreases were partially offset by premium rate increases for all medical lines of business and increased reimbursement in the Federal Employees Program, or FEP.

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Net income for the three months ended March 31, 2009 was $580.4 million, a 1% decrease over the three months ended March 31, 2008. The decline in net income was primarily driven by net realized losses on investments and increased administrative expense, partially offset by improvements in benefit expense. Our fully-diluted earnings per share, or EPS, was $1.16 for the three months ended March 31, 2009, which included $0.46 per share of net realized investment losses and was an 8% increase over the EPS of $1.07 for the three months ended March 31, 2008. The increase in EPS resulted primarily from the lower number of shares outstanding in 2009 due to share buy back activity under our share repurchase program, partially offset by slightly lower net income.

Operating cash flow for the three months ended March 31, 2009 was $1.2 billion, or 2.0 times net income. Operating cash flow for the three months ended March 31, 2008 was $1.0 billion, or 1.8 times net income. The increase in operating cash flow from 2008 was driven primarily by decreased incentive compensation payments and decreased tax payments, partially offset by a slight increase in claims payments.

II. Overview

We manage our operations through three reportable segments: Commercial; Consumer; and Other.

Our Commercial and Consumer segments both offer a diversified mix of managed care products, including preferred provider organizations, or PPOs; health maintenance organizations, or HMOs; traditional indemnity benefits and point-of-service plans, or POS plans; as well as a variety of hybrid benefit plans, including consumer-driven health plans, or CDHPs, hospital only and limited benefit products.

Our Commercial segment includes Local Group (including UniCare), National Accounts and certain other ancillary business operations (dental, vision, life and disability and workers compensation). Business units in the Commercial segment offer fully-insured products and provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services.

Our Consumer segment includes Senior, State-Sponsored and Individual businesses. Senior business includes services such as Medicare Part D, Medicare Advantage and Medicare Supplement, while State-Sponsored business includes our managed care alternatives for the Medicaid and State Children s Health Insurance Plan programs.

The Other segment includes our Comprehensive Health Solutions Business unit, or CHS, that brings together our resources focused on optimizing the quality of health care and cost of care management. CHS includes provider relations, care and disease management, employee assistance programs, including behavioral health, radiology benefit management, analytics-driven personal health care guidance and our pharmacy benefit management, or PBM, business, which includes NextRx, and our specialty pharmacy, PrecisionRx Specialty Solutions. Our Other segment also includes results from our Federal Government Solutions, or FGS, business. FGS business includes the FEP and National Government Services, Inc., or NGS, which acts as a Medicare contractor in several regions across the nation. The Other segment also includes other businesses that do not meet the quantitative thresholds for an operating segment as defined in Statement of Financial Accounting Standards (FAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, as well as intersegment sales and expense eliminations and corporate expenses not allocated to the other reportable segments.

Our operating revenue consists of premiums, administrative fees and other revenue. Premium revenue comes from fully-insured contracts where we indemnify our policyholders against costs for covered health and life benefits. Administrative fees come from contracts where our customers are self-insured, or where the fee is based on either processing of transactions or a percent of network discount savings realized. Additionally, we

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earn administrative fee revenues from our Medicare processing business and from other health-related businesses, including disease management programs. Other revenue is principally generated from member co-payments and deductibles associated with the mail-order sale of drugs by our PBM companies.

Our benefit expense primarily includes costs of care for health services consumed by our members, such as outpatient care, inpatient hospital care, professional services (primarily physician care) and pharmacy benefit costs. All four components are affected both by unit costs and utilization rates. Unit costs include the cost of outpatient medical procedures per visit, inpatient hospital care per admission, physician fees per office visit and prescription drug prices. Utilization rates represent the volume of consumption of health services and typically vary with the age and health status of our members and their social and lifestyle choices, along with clinical protocols and medical practice patterns in each of our markets. A portion of benefit expense recognized in each reporting period consists of actuarial estimates of claims incurred but not yet paid by us. Any changes in these estimates are recorded in the period the need for such an adjustment arises. While we offer a diversified mix of managed care products, including PPO, HMO, POS and CDHP products, our aggregate cost of care can fluctuate based on a change in the overall mix of these products.

Our selling expense consists of external broker commission expenses and generally varies with premium volume. Our general and administrative expense consists of fixed and variable costs. Examples of fixed costs are depreciation, amortization and certain facilities expenses. Other costs are variable or discretionary in nature. Certain variable costs, such as premium taxes, vary directly with premium volume. Other variable costs, such as salaries and benefits, do not vary directly with changes in premium, but are more aligned with changes in membership. The acquisition or loss of a significant block of business would likely impact staffing levels, and thus associate compensation expense. Examples of discretionary costs include professional and consulting expenses and advertising. Other factors can impact our administrative cost structure, including systems efficiencies, inflation and changes in productivity.

Our cost of drugs consists of the amounts we pay to pharmaceutical companies for the drugs we sell via mail order through our PBM and specialty pharmacy companies. This amount excludes the cost of drugs related to affiliated health customers recorded in benefit expense. Our cost of drugs can be influenced by the volume of prescriptions at our PBM companies, as well as cost changes, driven by prices set by pharmaceutical companies and the mix of drugs sold.

Our results of operations depend in large part on our ability to accurately predict and effectively manage health care costs through effective contracting with providers of care to our members and our medical management programs. Several economic factors related to health care costs, such as regulatory mandates of coverage as well as direct-to-consumer advertising by providers and pharmaceutical companies, have a direct impact on the volume of care consumed by our members. While we price our business so that premium yield exceeds total cost trends, the potential effect of escalating health care costs as well as any changes in our ability to negotiate competitive rates with our providers may impose further risks to our ability to profitably underwrite our business, and may have a material impact on our results of operations.

III. Significant Transactions

Announcement to Sell PBM Operations

On April 13, 2009 we announced that we entered into a definitive agreement to sell our NextRx subsidiaries to Express Scripts, Inc., or Express Scripts, one of the largest PBM companies in North America, for $4.675 billion, consisting of at least $3.275 billion in cash, subject to customary working capital and indebtedness adjustments, and the balance in Express Scripts common stock. We expect to use the net after-tax proceeds from the sale for a variety of purposes, including share repurchases, repayment of current maturities of long-term debt and other general corporate purposes. In connection with the agreement, at closing, we will enter into a 10-year contract for Express Scripts to provide PBM services to us following the close of the Express Scripts transaction.

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The Express Scripts transaction is expected to close in the second half of 2009, subject to, customary closing conditions, the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and any other required regulatory approvals.

Acquisition of DeCare Dental, LLC

On April 9, 2009, we completed our acquisition of DeCare Dental, LLC, or DeCare, a wholly-owned subsidiary of DeCare International. DeCare is one of the country s largest administrators of dental benefit plans, managing benefits for approximately 4.0 million members as of March 31, 2009. DeCare provides services directly and through partnerships and administrative agreements with 10 dental insurance brands, primarily as a third party administrat