WELLPOINT INC
Form 10-Q
July 25, 2007
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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 **June 30, 2007**

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 incorporation or organization)	(I.R.S. Employer 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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 July 18, 2007**
Common Stock, $0.01 par value	600,218,953 shares

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WellPoint, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WellPoint, Inc.

Consolidated Balance Sheets

(In millions, except share data)	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 4,205.1	$ 2,602.1
Investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $1,694.4 and $481.5)	1,682.0	465.4
Equity securities (cost of $1,736.4 and $1,669.7)	2,091.8	1,984.5
Other invested assets, current	63.0	72.8
Accrued investment income	165.4	157.2
Premium and self-funded receivables	2,626.8	2,335.3
Income taxes receivable	129.1	
Other receivables	1,261.2	1,172.7
Securities lending collateral	985.2	904.7
Deferred tax assets, net	627.1	642.6
Other current assets	1,315.1	1,284.5
Total current assets	15,151.8	11,621.8
Long-term investments available-for-sale, at fair value:		
Fixed maturity securities (amortized cost of $14,359.1 and $15,004.6)	14,216.1	14,972.4
Equity securities (cost of $81.8 and $82.7)	85.1	86.2
Other invested assets, long-term	675.6	628.8
Property and equipment, net	968.7	988.6
Goodwill	13,337.8	13,383.5
Other intangible assets	9,254.5	9,396.2
Other noncurrent assets	504.5	497.4
Total assets	$ 54,194.1	$ 51,574.9
Liabilities and shareholders equity		
Liabilities		
Current liabilities:		
Policy liabilities:		
Medical claims payable	$ 5,702.9	$ 5,290.3
Reserves for future policy benefits	76.4	76.3
Other policyholder liabilities	2,117.7	2,055.7
Total policy liabilities	7,897.0	7,422.3
Unearned income	1,665.7	987.9
Accounts payable and accrued expenses	2,769.6	3,242.2
Income taxes payable		538.2
Security trades pending payable	249.5	124.8
Securities lending payable	985.2	904.7
Current portion of long-term debt	520.0	521.0
Other current liabilities	1,682.5	1,397.4
Total current liabilities	15,769.5	15,138.5
Long-term debt, less current portion	7,652.2	6,493.2

Reserves for future policy benefits, noncurrent	655.0	646.9
Deferred tax liability, net	2,897.1	3,350.2
Other noncurrent liabilities	2,231.5	1,370.3
Total liabilities	29,205.3	26,999.1
Commitments and contingencies Note 13		
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: 603,829,997 and 615,500,865	6.0	6.1
Additional paid-in capital	19,853.0	19,863.5
Retained earnings	5,122.1	4,656.1
Accumulated other comprehensive income	7.7	50.1
Total shareholders equity	24,988.8	24,575.8
Total liabilities and shareholders equity	$ 54,194.1	$ 51,574.9

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Income

(Unaudited)

(In millions, except per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Revenues				
Premiums	$ 13,935.9	$ 12,918.8	$ 27,693.3	$ 25,497.7
Administrative fees	923.6	896.3	1,848.4	1,799.1
Other revenue	146.0	146.4	296.2	298.2
Total operating revenue	15,005.5	13,961.5	29,837.9	27,595.0
Net investment income	253.4	218.5	500.0	430.6
Net realized gains (losses) on investments	0.9	(8.9)	1.1	(16.0)
Total revenues	15,259.8	14,171.1	30,339.0	28,009.6
Expenses				
Benefit expense	11,405.1	10,486.8	22,834.6	20,711.8
Selling, general and administrative expense:				
Selling expense	429.6	413.2	852.6	814.6
General and administrative expense	1,830.7	1,778.9	3,539.3	3,550.1
Total selling, general and administrative expense	2,260.3	2,192.1	4,391.9	4,364.7
Cost of drugs	106.1	110.5	204.1	210.9
Interest expense	100.1	103.9	203.0	197.9
Amortization of other intangible assets	70.9	74.5	141.7	148.3
Total expenses	13,942.5	12,967.8	27,775.3	25,633.6
Income before income tax expense	1,317.3	1,203.3	2,563.7	2,376.0
Income tax expense	482.1	452.1	945.4	893.0
Net income	$ 835.2	$ 751.2	$ 1,618.3	$ 1,483.0
Net income per share				
Basic	$ 1.37	$ 1.20	$ 2.65	$ 2.32
Diluted	$ 1.35	$ 1.17	$ 2.61	$ 2.26

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In millions)	Six Months Ended June 30 2007	2006
Operating activities		
Net income	$ 1,618.3	$ 1,483.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized (gains) losses on investments	(1.1)	16.0
Loss on disposal of assets	1.1	0.9
Deferred income taxes	(228.1)	(40.5)
Amortization, net of accretion	232.5	230.1
Depreciation expense	63.0	68.5
Share-based compensation	102.1	141.1
Excess tax benefits from share-based compensation	(127.1)	(62.4)
Changes in operating assets and liabilities, net of effect of business combinations:		
Receivables, net	(198.9)	(467.6)
Other invested assets, current	10.0	(95.2)
Other assets	(39.1)	(142.3)
Policy liabilities	484.8	468.8
Unearned income	677.8	539.4
Accounts payable and accrued expenses	(319.9)	(304.0)
Other liabilities	201.9	181.2
Income taxes	254.9	(18.4)
Other, net	(25.2)	
Net cash provided by operating activities	2,707.0	1,998.6
Investing activities		
Purchases of fixed maturity securities	(5,396.2)	(8,141.8)
Proceeds from fixed maturity securities:		
Sales	3,828.4	7,595.9
Maturities, calls and redemptions	444.9	359.5
Purchase of equity securities	(817.1)	(1,376.1)
Proceeds from sales of equity securities	1,232.0	1,300.1
Changes in securities lending collateral	(80.5)	686.2
Purchases of property and equipment	(120.1)	(77.4)
Proceeds from sales of property and equipment	7.6	4.6
Other, net	(21.6)	(24.7)
Net cash (used in) provided by investing activities	(922.6)	326.3
Financing activities		
Net (repayment of) proceeds from commercial paper borrowings	(296.7)	191.5
Proceeds from long-term borrowings	1,478.3	2,668.9
Repayment of long-term borrowings	(5.4)	(2,156.7)
Changes in securities lending payable	80.5	(686.2)
Changes in bank overdrafts	(145.9)	124.0
Repurchase and retirement of common stock	(1,957.7)	(3,600.4)

Proceeds from exercise of employee stock options and employee stock purchase plan	538.4	265.8
Excess tax benefits from share-based compensation	127.1	62.4
Net cash used in financing activities	(181.4)	(3,130.7)
Change in cash and cash equivalents	1,603.0	(805.8)
Cash and cash equivalents at beginning of period	2,602.1	2,740.2
Cash and cash equivalents at end of period	$ 4,205.1	$ 1,934.4

See accompanying notes.

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WellPoint, Inc.

Consolidated Statements of Shareholders Equity

(Unaudited)

(In millions)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Unearned Share-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
January 1, 2007	615.5	$ 6.1	$ 19,863.5	$ 4,656.1	$	$ 50.1	$ 24,575.8
Net income				1,618.3			1,618.3
Change in net unrealized gains on investments						(45.2)	(45.2)
Change in net unrealized losses on cash flow hedges						(1.2)	(1.2)
Change in net periodic pension and postretirement costs						4.0	4.0
Comprehensive income							1,575.9
Repurchase and retirement of common stock	(24.4)	(0.3)	(806.7)	(1,150.7)			(1,957.7)
Issuance of common stock under employee stock plans, net of related tax benefits	12.7	0.2	796.2				796.4
Adoption of FIN 48				(1.6)			(1.6)
June 30, 2007	603.8	$ 6.0	$ 19,853.0	$ 5,122.1	$	$ 7.7	$ 24,988.8
January 1, 2006	660.4	$ 6.6	$ 20,915.4	$ 4,173.5	$ (82.1)	$ (20.3)	$ 24,993.1
Net income				1,483.0			1,483.0
Change in net unrealized losses on investments						(173.3)	(173.3)
Change in net unrealized losses on cash flow hedges						(2.6)	(2.6)
Comprehensive income							1,307.1
Repurchase and retirement of common stock	(48.0)	(0.5)	(1,524.9)	(2,075.0)			(3,600.4)
Reclassification of unearned share-based compensation in connection with adoption of FAS 123R			(82.1)		82.1		
Issuance of common stock under employee stock plans, net of related tax benefits	8.2	0.1	537.9				538.0

June 30, 2006	620.6	$ 6.2	$ 19,846.3	$ 3,581.5	$	$ (196.2)	$ 23,237.8

See accompanying notes.

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WellPoint, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2007

(In Millions, Except Per Share Data)

1. Organization

WellPoint, Inc. (WellPoint), which name changed from Anthem, Inc. effective November 30, 2004, is the largest health benefits company in terms of commercial membership in the United States, serving approximately 34.8 million members as of June 30, 2007. WellPoint and its consolidated subsidiaries (the Company) offer a broad spectrum of network-based managed care plans to large and small employer, individual, Medicaid and senior markets. The Company s managed care plans include preferred provider organizations (PPOs), health maintenance organizations (HMOs), point-of-service (POS) plans, traditional indemnity plans and other hybrid plans, including consumer-driven health plans (CDHPs), hospital only and limited benefit products. In addition, the Company provides 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 and other administrative services. The Company also provides an array of specialty and other products and services such as life and disability insurance benefits, pharmacy benefit management, specialty pharmacy, dental, vision, behavioral health benefit services, long-term care insurance and flexible spending accounts. The Company has licenses in all 50 states.

The Company is an independent licensee of the Blue Cross and Blue Shield Association (BCBSA), an association of independent health benefit plans, and serves its members as the Blue Cross licensee for California and as the Blue Cross and Blue Shield licensee for: Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri (excluding 30 counties in the Kansas City area), Nevada, New Hampshire, New York (as Blue Cross Blue Shield in 10 New York City metropolitan and surrounding counties and as Blue Cross or Blue Cross Blue Shield in selected upstate counties only), Ohio, Virginia (excluding the Northern Virginia suburbs of Washington, D.C.) and Wisconsin. The Company also serves customers throughout various parts of the country as UniCare.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (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 and six months ended June 30, 2007 and 2006 have been recorded. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. These unaudited consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements for the year ended December 31, 2006 included in WellPoint s Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission.

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

3. Investments

In accordance with Statement of Financial Accounting Standards (FAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, fixed maturity and equity securities are classified as either available-for-sale or trading and are reported at fair value. The Company classifies its investments in available-for-sale fixed maturity securities as either current or noncurrent assets based on their contractual maturities. Certain investments which the Company intends to sell within the next twelve months are carried as current without regard to their contractual maturities. Additionally, certain investments used to satisfy

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contractual, regulatory or other requirements continue to be classified as long-term, without regard to contractual maturity. The unrealized gains or losses on both 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 the Company does not have the intent and ability to hold such securities until their full cost can be recovered, in which case the securities are written down to fair value and the loss is charged to realized losses in current operations. The Company evaluates its investment securities for other-than-temporary declines based on quantitative and qualitative factors. The Company recorded realized losses from other-than-temporary impairments of $68.1 and $24.8 for the three months ended June 30, 2007 and 2006, respectively. The Company recorded realized losses from other-than-temporary impairments of $107.8 and $34.0 for the six months ended June 30, 2007 and 2006, respectively.

4. Goodwill and Other Intangible Assets

As further described in Note 11, Segment Information, the Company revised its reportable segments effective January 1, 2007. FAS 142, *Goodwill and Other Intangible Assets,* requires that goodwill and other intangible assets with indefinite lives be reassigned to the reporting units affected and tested for impairment between annual tests if an entity reorganizes its reporting structure. As a result, the Company completed a review of goodwill by reporting unit and an impairment test of existing goodwill during the first quarter of 2007. No impairment losses were recorded as a result of this testing. The carrying amount of goodwill by reportable segment at June 30, 2007 was $11,305.5 and $2,032.3 for the Commercial and Consumer Business (CCB) and Specialty, Senior and State-Sponsored Business (4SB) segments, respectively.

5. Capital Stock

Stock Repurchase Program

WellPoint maintains a common stock repurchase program, as authorized by the Board of Directors. Repurchases may be made from time to time at prevailing market prices, subject to certain restrictions on volume, pricing and timing. On March 21, 2007, the Board of Directors authorized an increase of $2,000.0 in the Company s stock repurchase program, increasing the program to $7,500.0 since the current program s inception in 2005. During the six months ended June 30, 2007, WellPoint repurchased and retired approximately 24.4 shares at an average per share price of $80.36, for an aggregate cost of $1,957.7. During the six months ended June 30, 2006, WellPoint repurchased and retired approximately 48.0 shares at an average per share price of $74.98, for an aggregate cost of $3,600.4. 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. As of June 30, 2007, $992.1 remained authorized for future repurchases. Subsequent to June 30, 2007, WellPoint repurchased and retired approximately 3.8 shares at an aggregate cost of approximately $310.0, leaving approximately $682.1 for authorized future repurchases at July 18, 2007.

Stock Incentive Plans

A summary of stock option activity for the six months ended June 30, 2007 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, 2007	35.2	$ 48.19		
Granted	6.3	80.81		
Exercised	(12.4)	40.56		
Forfeited or expired	(1.2)	72.88		
Outstanding at June 30, 2007	27.9	57.87	7.4	$ 619.3
Exercisable at June 30, 2007	16.6	45.20	6.2	$ 575.5

A summary of the status of nonvested restricted stock activity, including restricted stock units, for the six months ended June 30, 2007 is as follows:

	Restricted Stock Shares and Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at January 1, 2007	2.0	$ 68.74
Granted	0.9	80.81
Vested	(0.6)	69.18
Forfeited	(0.3)	64.15
Nonvested at June 30, 2007	2.0	74.41

6. Earnings per Share

The denominator for basic and diluted earnings per share for the three and six months ended June 30, 2007 and 2006 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Denominator for basic earnings per share weighted average shares	608.9	627.8	610.4	640.1
Effect of dilutive securities employee and director stock options and non-vested restricted stock awards	9.0	14.2	10.1	15.4
Denominator for diluted earnings per share	617.9	642.0	620.5	655.5

During the three months ended June 30, 2007 and 2006, weighted average shares related to certain stock options of 6.1 and 6.4, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive. During the six months ended June 30, 2007 and 2006, weighted average shares related to certain stock options of 4.2 and 4.3, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

During the six months ended June 30, 2007, the Company issued approximately 0.8 restricted stock units under the Company s stock incentive plans. The restricted stock units will convert to shares upon vesting, which is contingent upon the Company meeting specified annual earnings per share amounts for 2007. The 0.8 restricted stock units have been excluded from the denominator for diluted earnings per share and will be included when the contingency is met.

7. Income Taxes

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). Among other things, FIN 48 provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. In addition, FIN 48 requires expanded annual disclosures, including a rollforward of the beginning and ending aggregate unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. The Company adopted FIN 48 on January 1, 2007, and recorded a reduction of retained earnings of $1.6 effective January 1, 2007. The amount of unrecognized tax benefits from uncertain tax positions at January 1, 2007 was $884.0. As a result of the expiration of certain statute of limitations, the Company released approximately $17.6 of liabilities related to uncertain tax positions during the six months ended June 30, 2007. Of this release, approximately $15.3 was recorded as an adjustment to goodwill as such liabilities were related to prior business combinations.

As of January 1, 2007, $499.0 of unrecognized tax benefits, if recognized, would affect the effective tax rate. Included in the January 1, 2007 balance is $190.3 of tax positions arising from business combinations that, if recognized, ultimately would be recorded as an adjustment to goodwill and would not affect the effective tax rate. Also included is $8.1 that will be recognized as an adjustment to additional paid-in-capital and will not affect the effective tax rate. The January 1, 2007 balance includes $186.6 of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Excluding the impact of interest and penalties, the disallowance of the shorter deductibility period would not affect the effective tax rate, but would accelerate the payment of cash to the taxing authority to an earlier period.

As of June 30, 2007, as further described below, certain of the Company s tax years remain subject to examination by the Internal Revenue Service (IRS). In addition, the Company continues to discuss certain industry issues with the IRS. As a result of these examinations and discussions, the Company has recorded amounts for uncertain tax positions. However, the ultimate outcome of IRS examinations and discussions, as well as an estimate of any related change to amounts recorded for uncertain tax positions, cannot be presently determined.

The Company recognizes interest and, if applicable, penalties which could be assessed related to unrecognized tax benefits in income tax expense. For the three months ended June 30, 2007 and 2006, the Company recognized approximately $11.2 and $7.1 in interest, respectively. For the six months ended June 30, 2007 and 2006, the Company recognized approximately $17.5 and $19.7 in interest, respectively. The Company had accrued approximately $213.6 and $196.1 for the payment of interest at June 30, 2007 and December 31, 2006, respectively.

As of June 30, 2007, the Company s 2006, 2005 and 2004 tax years are being examined by the IRS. In addition, the Company has several tax years for which there are ongoing disputes. For 2007, the IRS has invited the Company to join in the Compliance Assurance Program (CAP), and the Company has accepted. The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of tax returns prior to filing, thereby reducing or eliminating the need for post-filing examinations.

8. Hedging Activity

Fair Value Hedges

For the three months ended June 30, 2007 and 2006, the Company recognized expense of $1.7 and $2.7, respectively, from fair value hedges, which were recorded as an increase to interest expense. For the six months ended June 30, 2007 and 2006, the Company recognized expense of $3.1 and $4.4, respectively, from fair value hedges, which were recorded as an increase to interest expense.

Cash Flow Hedges

During the year ended December 31, 2005, the Company entered into a floating to fixed rate cash flow hedge with a total notional value of $480.0. The purpose of this hedge is to offset the variability of the cash flows due to the rollover of the Company s variable-rate one-month commercial paper issuance. In December 2006, the total notional value was reduced to $240.0. This swap agreement expires in December 2007. During the three and six months ended June 30, 2007 and 2006, no gain or loss from hedge ineffectiveness was recorded in earnings and the commercial paper borrowings remained outstanding at June 30, 2007.

During the year ended December 31, 2005, the Company entered into forward starting pay fixed swaps with an aggregate notional amount of $875.0. The objective of these hedges was to eliminate the variability of cash flows in the interest payments on the debt securities to be issued to partially fund the cash portion of the 2005 acquisition of WellChoice, Inc. (WellChoice). These swaps were terminated in January 2006, and the Company paid a net $24.7, the net fair value at the time of termination. In addition, the Company recorded an

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unrealized loss of $16.0, net of tax, as accumulated other comprehensive income. Following the issuance of WellChoice related debt securities in January 2006, the unamortized fair value of the forward starting pay fixed swaps included in balances in accumulated other comprehensive income began amortizing into earnings, as an increase to interest expense, over the life of the debt securities.

The unrecognized loss for all cash flow hedges included in accumulated other comprehensive income at June 30, 2007 was $6.8.

9. Long-Term Debt

On June 8, 2007, the Company issued $700.0 of 5.875% notes due 2017 and $800.0 of 6.375% notes due 2037 under a shelf registration statement filed with the U.S. Securities and Exchange Commission on December 28, 2005. The proceeds from this debt issuance are for working capital and for general corporate purposes, including, but not limited to, repurchasing shares of the Company s common stock. The notes have a call feature that allows the Company to repurchase the notes anytime at its option and a put feature that allows a note holder to require the Company to repurchase the notes upon the occurrence of both a change of control event and a downgrade of the notes.

The Company has an authorized commercial paper program of up to $2,500.0, the proceeds of which may be used for general corporate purposes. At June 30, 2007, the Company had $998.7 outstanding under this program compared to $1,295.3 at December 31, 2006.

The Company has a senior revolving credit facility (the facility) with certain lenders for general corporate purposes. The facility, as amended, provides credit up to $2,500.0 (reduced for any commercial paper issuances) and 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 the Company s credit rating at the date of utilization, or (ii) a base rate as defined in the facility agreement. The Company s ability to borrow under this facility is subject to compliance with certain covenants. There were no amounts outstanding under this facility as of June 30, 2007 or during the six months then ended. At June 30, 2007, the Company had $1,501.3 available under this facility.

10. Retirement Benefits

The components of net periodic benefit cost included in the consolidated statements of income for the three months ended June 30, 2007 and 2006 are as follows:

	Pension Benefits		Other Benefits	
	2007	**2006**	**2007**	**2006**
Service cost	$ 9.2	$ 14.2	$ 1.7	$ 3.6
Interest cost	25.4	25.1	8.9	7.8
Expected return on assets	(38.6)	(36.7)	(0.8)	(0.7)
Recognized actuarial loss	0.1	4.2	0.7	0.9
Amortization of prior service cost	0.2	(0.2)	(0.9)	(1.0)
Curtailment loss (gain)	6.1		(0.6)	
Net periodic benefit cost	$ 2.4	$ 6.6	$ 9.0	$ 10.6

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The components of net periodic benefit cost included in the consolidated statements of income for the six months ended June 30, 2007 and 2006 are as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	$ 18.8	$ 28.2	$ 4.1	$ 6.1
Interest cost	51.0	50.4	17.5	15.6
Expected return on assets	(76.2)	(72.3)	(1.6)	(1.4)
Recognized actuarial loss	0.4	8.4	1.8	2.1
Amortization of prior service cost	0.4	(0.5)	(1.6)	(1.3)
Curtailment loss (gain)	6.1	(4.6)	(0.6)	
Net periodic benefit cost	$ 0.5	$ 9.6	$ 19.6	$ 21.1

For the year ending December 31, 2007, no required contributions under ERISA are expected; however, the Company 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 or six months ended June 30, 2007.

During the three months ended June 30, 2007, the Company incurred a net curtailment loss of $6.1 within certain of its supplemental pension plans.

11. Segment Information

The Company has implemented an organizational structure designed to facilitate the Company s strategic plan. The Company is organized around three reportable segments: CCB, 4SB and Other. The Company s reportable segments are in accordance with the organizational structure, which reflects how the chief operating decision maker evaluates the performance of the business beginning January 1, 2007. Segment disclosures for 2006 have been reclassified to conform to the 2007 presentation.

The Company s CCB segment includes business units which offer similar products and services, including commercial accounts and individual programs. The Company offers a diversified mix of managed care products, including PPO s, HMOs, traditional indemnity benefits and POS plans. The Company also offers a variety of hybrid benefit plans, including CDHPs, hospital only and limited benefit products. Additionally, the Company provides 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 and other administrative services.

The Company s 4SB segment is comprised of businesses providing specialty products and services such as Medicare Part D, Medicare Advantage, Medicare Supplement, Medicaid, life and disability insurance benefits, pharmacy benefit management, specialty pharmacy, dental, vision, behavioral health benefit services, and long-term care insurance. The Company also provides network rental and medical management services to workers compensation carriers.

The Other segment includes results from the Company s Federal Government Solutions business and 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. The Company s Federal Government Solutions business includes the Federal Employee Program (FEP) and National Government Services, Inc., which acts as a Medicare contractor in several regions across the nation.

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As a result of the organizational structure described above, as of December 31, 2006 a liability of $51.6 remained for future payments of termination costs. The Company accrued an additional $8.7 and made payments of $26.0 during the six months ended June 30, 2007 related to these termination costs. A liability of $34.3 remained at June 30, 2007 for future payments of termination costs.

Financial data by reportable segment for the three and six months ended June 30, 2007 and 2006 is as follows:

	CCB	4SB	Other and Eliminations	Total
Three Months Ended June 30, 2007				
Operating revenue from external customers	$ 10,516.0	$ 2,982.7	$ 1,506.8	$ 15,005.5
Intersegment revenues		423.1	(423.1)	
Operating gain	1,013.9	212.8	7.3	1,234.0
Three Months Ended June 30, 2006				
Operating revenue from external customers	$ 10,148.4	$ 2,494.0	$ 1,319.1	$ 13,961.5
Intersegment revenues		349.4	(349.4)	
Operating gain (loss)	906.3	287.0	(21.2)	1,172.1
Six Months Ended June 30, 2007				
Operating revenue from external customers	$ 20,933.8	$ 5,929.3	$ 2,974.8	$ 29,837.9
Intersegment revenues		810.9	(810.9)	
Operating gain	2,027.7	356.0	23.6	2,407.3
Six Months Ended June 30, 2006				
Operating revenue from external customers	$ 20,065.8	$ 4,942.4	$ 2,586.8	$ 27,595.0
Intersegment revenues		682.6	(682.6)	
Operating gain (loss)	1,888.4	453.0	(33.8)	2,307.6

A reconciliation of reportable segments operating revenues to total revenues reported in the consolidated statements of income for the three and six months ended June 30, 2007 and 2006 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Reportable segments operating revenues	$ 15,005.5	$ 13,961.5	$ 29,837.9	$ 27,595.0
Net investment income	253.4	218.5	500.0	430.6
Net realized gains (losses) on investments	0.9	(8.9)	1.1	(16.0)
Total revenues	$ 15,259.8	$ 14,171.1	$ 30,339.0	$ 28,009.6

A reconciliation of reportable segments operating gain to income before income tax expense included in the consolidated statements of income for the three and six months ended June 30, 2007 and 2006 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Reportable segments operating gain	$ 1,234.0	$ 1,172.1	$ 2,407.3	$ 2,307.6
Net investment income	253.4	218.5	500.0	430.6
Net realized gains (losses) on investments	0.9	(8.9)	1.1	(16.0)
Interest expense	(100.1)	(103.9)	(203.0)	(197.9)
Amortization of other intangible assets	(70.9)	(74.5)	(141.7)	(148.3)

Income before income tax expense	$ 1,317.3	$ 1,203.3	$ 2,563.7	$ 2,376.0

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12. Comprehensive Income

The components of comprehensive income for the three and six months ended June 30, 2007 and 2006 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net income	$ 835.2	$ 751.2	$ 1,618.3	$ 1,483.0
Change in net unrealized losses on investments	(97.3)	(122.4)	(45.2)	(173.3)
Change in net unrealized losses on cash flow hedges	(0.6)	0.1	(1.2)	(2.6)
Change in net periodic pension and postretirement costs	3.3		4.0	
Comprehensive income	$ 740.6	$ 628.9	$ 1,575.9	$ 1,307.1

13. Commitments and Contingencies

Litigation

In July 2005, the Company 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 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 the Company reached settlement with the plaintiffs, WellChoice continues to be a defendant in the Thomas (now known as Love) Litigation and is not affected by the prior settlement between the Company and plaintiffs. The Love Litigation alleges that the Blue Cross and Blue Shield Association and the Blue Cross and Blue Shield plans violated the Racketeer Influenced and Corrupt Organizations Act (RICO). On April 27, 2007, the Company, along with 22 other Blue Cross and Blue Shield plans and the Blue Cross and Blue Shield Association, announced a settlement of the Love Litigation. The Court granted preliminary approval on May 31, 2007. The settlement will not have a material effect on the Company s consolidated financial position or results of operations.

Prior to WellPoint Health Network Inc. s (WHN) acquisition of the group benefit operations (GBO) of John Hancock Mutual Life Insurance Company (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. The Company is currently in arbitration with John Hancock regarding these arrangements. The arbitration panel s Phase I ruling addressed liability. On April 23, 2007, the arbitration panel issued a Phase II ruling stating the amount the Company owes to John Hancock for losses and expenses John Hancock paid through June 30, 2006. The panel further outlined a process for determining the Company s liability for losses and expenses paid after June 30, 2006, which liability has not been determined yet. The Company filed a Petition to Confirm and John Hancock filed an Application to Vacate the arbitration rulings, which are currently pending in federal court. The Company believes that the liability that may result from this matter is unlikely to have a material adverse effect on its consolidated financial condition or results of operations.

In various California state courts, the Company is defending a number of individual lawsuits and several purported class actions alleging the wrongful rescission of individual insurance policies. The suits name WellPoint as well as Blue Cross of California (BCC) and BC Life & Health Insurance Company (BCL&H), 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. In December 2006, the California Medical Association filed a motion to intervene in one of the class actions. The motion has not been heard. The parties have agreed to mediate most of these lawsuits and the mediation has resulted in the resolution of some of these lawsuits. A settlement of one of the class actions is pending preliminary approval by the trial court. In addition, the California Department of Managed Health Care and California Department of Insurance are conducting investigations of the allegations. In February 2007 the California Department of Managed Health Care issued its final report in which it indicated its intention to impose a monetary penalty against BCC of $1.0. 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. While the outcome is currently unknown, the Company believes that any liability that may result from this matter is unlikely to have a material adverse effect on its consolidated financial condition or results of operations.

In various California state courts, several hospitals have filed suits against BCC and WHN for payment of claims denied where the member was rescinded. These lawsuits are currently in mediation or arbitration. 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. An amended complaint was recently filed adding the California Medical Association along with the California Hospital Association as new plaintiffs in this suit. In December 2006, this purported class of hospitals also filed a motion to intervene in one of the individual class action cases referenced above. The motion has not been heard. The Company denies any wrongdoing. The Company intends to vigorously defend these proceedings; however, their ultimate outcome cannot be presently determined.

Other Contingencies

From time to time, the Company and certain of its subsidiaries are parties to various legal proceedings, many of which involve claims for coverage encountered in the ordinary course of business. The Company, like HMOs and health insurers generally, excludes certain health care services from coverage under its HMO, PPO and other plans. The Company is, in its ordinary course of business, subject to the claims of its enrollees arising out of decisions to restrict or deny reimbursement for certain services. The loss of even one such claim, if it results in a significant punitive damage award, could have a material adverse effect on the Company. 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, the Company is also involved in other pending and threatened litigation of the character incidental to the business transacted, arising out of its operations and its 2001 demutualization, and is 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. The Company believes 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 its consolidated financial position or results of operations.

Contractual Obligations and Commitments

The Company entered into certain agreements with International Business Machines Corporation (IBM) to provide information technology infrastructure services. These services were previously performed in-house. The Company s remaining commitment under these contracts at June 30, 2007 is approximately $857.6 over a six year period. The Company has the ability to terminate these agreements upon the occurrence of certain events, subject to certain early termination fees.

On July 15, 2004, the Company agreed to guarantee up to $37.0 of debt incurred by an unaffiliated entity to partially finance the purchase of a hospital. While the maximum amount of the guaranty may be reduced in periods after September 30, 2006 as determined by reference to the leverage ratio (as defined in the guaranty) of the unaffiliated entity, the maximum guaranty remained $37.0 at June 30, 2007. The guaranty also provides for full payment of all obligations under the guaranty to become immediately due and payable under specified circumstances. In connection with the guaranty, the unaffiliated entity agreed to reimburse the Company upon demand for any amounts paid by the Company under the guaranty. The obligations of the unaffiliated entity under the reimbursement agreement are secured by a second lien on certain real estate collateral. In addition, the parent company of the unaffiliated entity has provided a guaranty in favor of the Company guaranteeing the obligations of the unaffiliated entity under the reimbursement agreement.

In connection with an investment in July 2004 in a joint venture to develop and operate a well-being center in California, the Company may be required to make an additional capital contribution of up to approximately $22.0 during the first three years that the well-being center is in operation if cash flows and room nights generated by the Company do not exceed specified targets. Approximately $2.3 has been funded through June 30, 2007. The well-being center began operations during December 2006.

14. Pending Transaction

On July 9, 2007, the Company announced it had entered into an agreement to acquire Imaging Management Holdings, LLC (IMH) whose sole business is the holding company parent of American Imaging Management, Inc. (AIM). AIM is a leading radiology benefit management and technology company and currently provides services to the Company as well as other customers nationwide, including eight other Blue Cross and Blue Shield licensees. The acquisition directly ties to WellPoint s strategy to become the leader in affordable quality care and the most trusted choice for consumers. WellPoint will pay approximately $300.0 in cash and the acquisition is expected to close later in 2007, subject to standard closing conditions and customary approvals by regulatory agencies.

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

References to the terms we , our , us or the Company used throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, refer to WellPoint, Inc. (name changed from Anthem, Inc. effective November 30, 2004), an Indiana corporation, and unless the context otherwise requires, its direct and indirect subsidiaries.

The structure of our Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, is as follows:

I. Executive Summary

We are the largest health benefits company in terms of commercial membership in the United States, serving approximately 34.8 million members as of June 30, 2007. 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 the immediate suburbs of Washington, D.C.) and Wisconsin. We also serve customers throughout various parts of the country as UniCare.

Operating revenue for the three months ended June 30, 2007 was $15.0 billion, an increase of $1.0 billion, or 7%, over the three months ended June 30, 2006. Operating revenue for the six months ended June 30, 2007 was $29.8 billion, an increase of $2.2 billion, or 8%, over the six months ended June 30, 2006. This increase was primarily driven by premium rate increases in Local Group, growth in our State-Sponsored business with the addition of five new states, growth in Medicare Advantage business and increased reimbursement in the Federal Employee Program, or FEP.

Net income for the three months ended June 30, 2007 was $835.2 million, an 11% increase over the three months ended June 30, 2006. Net income for the six months ended June 30, 2007 was $1.6 billion, a 9% increase over the six months ended June 30, 2006. Our fully-diluted earnings per share, or EPS, was $1.35 for the three months ended June 30, 2007, which was a 15% increase over the EPS of $1.17 for the three months ended June 30, 2006. Our fully-diluted earnings per share, or EPS, was $2.61 for the six months ended June 30, 2007, which was a 15% increase over the EPS of $2.26 for the six months ended June 30, 2006.

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Operating cash flow for the six months ended June 30, 2007 was $2.7 billion, or 1.7 times net income. Operating cash flow for the six months ended June 30, 2006 was $2.0 billion, or 1.3 times net income. The increase in operating cash flow from 2006 was driven primarily by lower income tax payments and higher net income in 2007 compared to 2006.

II. Overview

In the third quarter of 2006, we announced an organizational structure designed to support our strategic plan, which reflects how our chief operating decision maker evaluates the performance of our business beginning January 1, 2007. This structure capitalizes on our unique local presence and emphasizes company-wide innovation and strong customer focus. As a result of this organizational structure, we manage our operations through three reportable segments: Commercial and Consumer Business, or CCB; Specialty, Senior and State-Sponsored Business, or 4SB; and Other. See Note 11 to our unaudited consolidated financial statements as of and for the three and six months ended June 30, 2007 included in this Quarterly Report on Form 10-Q.

Our CCB segment includes business units which offer similar products and services, including commercial accounts and individual programs. We 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 or POS plans. We also offer a variety of hybrid benefit plans, including consumer-driven health plans, or CDHPs, hospital only and limited benefit products. Additionally, 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 and other administrative services.

Our 4SB segment is comprised of businesses providing specialty products and services such as Medicare Part D, Medicare Advantage, Medicare Supplement, Medicaid, life and disability insurance benefits, pharmacy benefit management, or PBM, specialty pharmacy, dental, vision, behavioral health benefit services and long-term care insurance. We also provide network rental and medical management services to workers compensation carriers.

The Other segment includes results from our Federal Government Solutions business and 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. Our Federal Government Solutions business includes FEP and National Government Services, Inc., which acts as a Medicare contractor in several regions across the nation.

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 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 pharmacy benefit management companies.

Our benefit expense 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.

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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 salary and benefit 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. 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 mail order prescriptions at our PBM, 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 and direct-to-consumer advertising by providers and pharmaceutical companies, have a direct impact on the volume of care consumed by our members. 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.

This MD&A should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2006 and the MD&A included in our 2006 Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission and in conjunction with our unaudited consolidated financial statements and accompanying notes as of and for the three and six months ended June 30, 2007 included in this Quarterly Report on Form 10-Q. Results of operations, cost of care trends, investment yields and other measures for the three and six month period ended June 30, 2007 are not necessarily indicative of the results and trends that may be expected for the full year ending December 31, 2007.

III. Significant Transactions

Stock Repurchase Program

We maintain a common stock repurchase program as authorized by our Board of Directors. Repurchases may be made from time to time at prevailing market prices, subject to certain restrictions on volume, pricing and timing. On March 21, 2007, the Board of Directors authorized an increase of $2.0 billion in our stock repurchase program, increasing the program to $7.5 billion since the current program s inception in 2005. During the six months ended June 30, 2007, we repurchased and retired approximately 24.4 million shares at an average share price of $80.36, for an aggregate cost of $2.0 billion. As of June 30, 2007, $1.0 billion remained authorized for future repurchases. Subsequent to June 30, 2007, we repurchased and retired approximately 3.8 million shares for an aggregate cost of approximately $0.3 billion, leaving approximately $0.7 billion for authorized future repurchases at July 18, 2007. Our stock repurchase program is discretionary as we are under no obligation to repurchase shares. We repurchase shares because we believe it is a prudent use of surplus capital.

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IV. Membership June 30, 2007 Compared to June 30, 2006

Our customer type definitions were revised in the first quarter of 2007 in accordance with our organizational structure, as described above. Our medical membership includes seven different customer types: Local Group, Individual, National Accounts, BlueCard, Senior, State-Sponsored and FEP.

Local Group consists of those employer customers with less than 1,000 employees eligible to participate as a member in one of our health plans. In addition, Local Group includes customers with 1,000 or more eligible employees with less than 5% of eligible employees located outside of the headquarter s state.

Individual consists of individual customers under age 65 and their covered dependents.

National Accounts customers are multi-state employer groups primarily headquartered in a WellPoint service area with 1,000 or more eligible employees, with at least 5% of eligible employees located outside of the headquarter s state. Service area is defined as the geographic area in which we are licensed to sell BCBS products.

BlueCard host members represent enrollees of Blue Cross and/or Blue Shield plans not owned by WellPoint who receive health care services in our BCBSA licensed markets. BlueCard membership consists of estimated host members using the national BlueCard program. Host members are generally members who reside in or travel to a state in which a WellPoint subsidiary is the Blue Cross and/or Blue Shield licensee and who are covered under an employer-sponsored health plan issued by a non-WellPoint controlled BCBSA licensee (i.e., the home plan). We perform certain administrative functions for BlueCard members, for which we receive administrative fees from the BlueCard members home plans. Other administrative functions, including maintenance of enrollment information and customer service, are performed by the home plan. Host members are computed using, among other things, the average number of BlueCard claims received per member per month.

Senior members are Medicare-eligible individual members age 65 and over who have enrolled in Medicare Advantage, a managed care alternative for the Medicare program, or who have purchased Medicare Supplement benefit coverage.

State-Sponsored membership represents eligible members with state sponsored managed care alternatives in Medicaid and State Children s Health Insurance programs.

FEP members consist of United States government employees and their dependents within our geographic markets through our participation in the national contract between the BCBSA and the U.S. Office of Personnel Management.

In addition to reporting our medical membership by customer type, we report by funding arrangement according to the level of risk that we assume in the product contract. Our two funding arrangement categories are fully-insured and self-funded. Fully-insured products are products in which we indemnify our policyholders against costs for health benefits. Self-funded products are offered to customers, generally larger employers, who elect to retain some or all of the financial risk associated with their employees health care costs. Some customers choose to purchase stop-loss coverage to limit their retained risk. These customers are reported with our self-funded business.

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The following table presents our medical membership by customer type, funding arrangement and reportable segment as of June 30, 2007 and 2006. Also included below are key specialty metrics, including prescription volume for our PBM and membership by product. The medical membership and specialty metrics presented are unaudited and in certain instances include estimates of the number of members represented by each contract at the end of the period.

(In thousands)	**June 30**			
Medical Membership	**2007**	**2006[1]**	**Change**	**% Change**
Customer Type				
Local Group	16,688	16,701	(13)	0%
Individual	2,450	2,508	(58)	(2)
National:				
National Accounts	6,413	6,217	196	3
BlueCard	4,475	4,194	281	7
Total National	10,888	10,411	477	5
Senior	1,238	1,209	29	2
State-Sponsored	2,122	1,980	142	7
FEP	1,381	1,354	27	2
Total medical membership by customer type	34,767	34,163	604	2%
Funding Arrangement				
Self-Funded	17,425	16,980	445	3%
Fully-Insured	17,342	17,183	159	1
Total medical membership by funding arrangement	34,767	34,163	604	2%
Reportable Segment				
Commercial and Consumer Business	30,026	29,620	406	1%
Specialty, Senior and State-Sponsored Business	3,360	3,189	171	5
Other	1,381	1,354	27	2
Total medical membership by reportable segment	34,767	34,163	604	2%
Specialty Metrics				
PBM prescription volume[2]	98,054	96,919	1,135	1%
Behavioral health membership	20,038	15,938	4,100	26
Life and disability membership	5,754	5,964	(210)	(4)
Dental membership	5,169	5,258	(89)	(2)
Vision membership	2,480	940	1,540	164
Medicare Part D membership	1,594	1,527	67	4

1 Medical membership data for 2006 has been reclassified to conform to the 2007 presentation.

2 Represents prescription volume for mail order, specialty pharmacy and retail prescriptions for the three months ended June 30, 2007 and 2006.