



WellPoint, Inc.

Outperform (1)

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Analysts

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WLP: Capital Deployment Trumps Headline Risk

Conclusion: As we see it, WLP is a capital deployment story - partially offset by reform risk and a tough comp given substantial reserve releases in 2009. We maintain our favorable view of WLP shares given our expectation that the pricing environment is improving in 2010, particularly in the individual and small group segments of the market - likely driving underlying commercial MLR improvement. Of course, healthcare reform is a double-edged sword for WLP shares. Should reform fail, WLP would be a primary beneficiary. However, its 2.2 million individual members do leave it somewhat exposed to the 80% individual MLR floor contemplated in the Senate bill and Federal oversight of rating action proposed by the President.

- Critical to our 2010 EPS projection (and the progression of quarterly earnings) is our assumption that WLP's \$4 billion in share repurchase activity will be front-end weighted with \$1.5 billion (23-24 million shares) in each quarter of 1H/10.** We estimate that WLP has an incremental \$1.9 billion of share repurchase potential -- which could offset a short-term delay in its requested individual rate hikes in California. By our estimates, if WLP were to fully deploy its \$1.9 billion in expected 2010 excess parent cash in 2Q10, it would be worth \$0.22 per share in 2010 EPS.
- What's Next: Wednesday, March 10, 2010 8:00-8:35am (Breakout 8:45-9:20am), Cowen Health Care Conference - Boston, MA.** Wednesday, March 17, 2010 8:30 a.m. EDT, WellPoint's 2010 financial outlook conference call (888-423-3268, int'l: 612-288-0329; replay pswd: 147167, replay: 800-475-6701, int'l replay: 320-365-3844).

WLP (03/03)		\$62.36	Revenue \$MM								
Mkt cap		\$28.8B	FY	2009		2010E		2011E		2012E	
Dil shares out		461.1MM	Dec	Actual	Prior	Current	Prior	Current	Prior	Current	
Avg daily vol		4,413.1K	Q1	15,299.0	13,938.0	14,176.0	—	14,829.0	—	—	
52-wk range		\$30.1-70.0	Q2	15,266.0	14,057.0	14,287.0	—	14,981.0	—	—	
Dividend		Nil	Q3	15,207.0	14,145.0	14,359.0	—	15,163.0	—	—	
Dividend yield		Nil	Q4	15,057.0	14,262.0	14,480.0	—	15,343.0	—	—	
BV/sh		\$53.92	Year	60,829.0	56,401.0	57,302.0	—	60,315.0	—	—	
Net cash/sh		NA	EV/S	—	—	—	—	—	—	—	
Debt/cap		25.1%									
ROE (LTM)		24.0%									
5-yr fwd growth (Norm)		NA	OpEPS* \$								
			FY	2009		2010E		2011E		2012E	
			Dec	Actual	Prior	Current	Prior	Current	Prior	Current	
			Q1	1.62	1.52	1.51	—	1.74	—	—	
			Q2	1.50	1.48	1.47	—	1.64	—	—	
			Q3	1.78	1.79	1.82	—	1.98	—	—	
			Q4	1.16	1.40	1.41	—	1.43	—	—	
			Year	6.08	—	6.20	—	6.80	—	—	
			P/E	—	—	10.1x	—	9.2x	—	—	
S&P 500		1118.8									

*Excludes 1 time items.

- **By our estimates, each 2-month delay in WLP realizing targeted mid-20s rate hikes for its 800,000 individual members in California will likely shave \$0.10 off 2010 projected EPS.** The rate increases are scheduled for May. Unfortunately, the magnitude of its requested premium increases have become a bit of a political lightning rod. We look for a sense of the magnitude and timing of requested individual rate action.
- Modeling WLP's PBM sale is no easy feat. **Contrary to the Consensus view, we believe that the sale of the PBM will RAISE WLP's aggregate MLR (by 60 bp not including the impact of lower drug costs on operating MLRs) owing to a rise in the company's specialty MLR.** We estimate that WLP's at-risk specialty MLR will rise from a baseline of 67% in 2009 (before the 4Q/09 divestiture of the PBM) to 79.7% in 2010. Merely extracting Other Revenue, Cost of Drugs Sold Through Mail Order and some SG&A does not fully adjust for the PBM sale (and in fact, implies that the PBM operated in the red - the spread on drugs must also be extracted). We look for more clarity on how to model the PBM sale.
- **Net reserve releases of \$262 million in 2009 represent a headwind of \$0.36 per share in 2010** and a 50 bp headwind to its MLR (albeit one we expect to be more than offset through share repurchase enabled by the sale of the company's PBM).
- **We conservatively anticipate that WLP's Medicare Advantage MLR will deteriorate by 610 bp.** By our estimates, the book achieved a spectacular 77% MLR in 2009, thanks in part to \$168 million in prior period favorable development (excluding PPPD, the Medicare MLR was 80.8% in 2009, projected to rise to 83.1% in 2010).
- **The magnitude of SG&A improvement in 2010 is a critical element of our 2010 EPS projection, albeit one that remains somewhat of a mystery.** According to ESRX filings, WLP's PBM carried quarterly SG&A of roughly \$100 million, implying a sequential step down of about \$70 million in 1Q10. We have modeled a decline of about \$100 million (relative to normal seasonality from 4Q/09 to 1Q/10). It is unclear how much the sale of the PBM, loss of at-risk commercial membership and operational improvement initiatives will improve the SG&A load. We anticipate some offsetting "investments."
- **We see WLP's commercial MLR improving 60 bp** (excluding specialty) as the conversion of 870,000 municipal members from insured to ASO (at a presumed 90% MLR) and the exit of commercial enrollment in Illinois and Texas should improve the commercial MLR by 90 bp in 2010 versus 2009. While the commercial MLR benefited from about \$81 million in prior period favorable development (helped 2009 commercial MLR by 20 bp), rate action coupled with mix shift should more than secure our MLR improvement projection. COBRA should remain a drag (paying brokers for COBRA members was not a prudent strategy, in our view), although H1N1 should partially offset the drag.
- **While WLP will be reclassifying some medical costs (MLR) to SG&A in 2010, our model does not contemplate this shift.**

WLP Enrollment 2009-2010E

(\$ mil) FY ending Dec. 31	1Q09	2Q09	3Q09	4Q09	2009	1Q10E	2Q10E	3Q10E	4Q10E	2010E	1Q10E %CHG	2Q10E %CHG	3Q10E %CHG	4Q10E %CHG	10/09E %CHG
Comm. At-Risk En. (000)															
Ending Comm. At-Risk En.	11,530	11,344	11,210	11,095	11,095	9,705	9,610	9,545	9,560	9,560	-15.8%	-15.3%	-14.9%	-13.8%	-13.8%
% of Prem.-based Enroll.	72.5%	72.1%	72.1%	71.9%	71.9%	68.7%	68.3%	68.1%	68.0%	68.0%					
Avg. Comm. At-Risk En.	11,614	11,406	11,255	10,853	11,282	9,705	9,642	9,567	9,555	9,617	-16.4%	-15.5%	-15.0%	-12.0%	-14.8%
Commercial Risk Revenue PMPM	\$278.65	\$284.97	\$288.30	\$295.70	\$286.80	\$298.70	\$304.70	\$308.70	\$311.70	\$305.90	7.2%	6.9%	7.1%	5.4%	6.7%
Comm. At-Risk Premium Rev.	9,708	9,751	9,734	9,628	38,821	8,697	8,813	8,860	8,935	35,305	-10.4%	-9.6%	-9.0%	-7.2%	-9.1%
Commercial MLR	79.2%	82.8%	80.3%	84.8%	81.8%	79.5%	81.5%	80.2%	83.6%	81.2%					
Commercial medical expenses	7,685	8,077	7,818	8,167	31,747	6,914	7,183	7,105	7,470	28,672	-10.0%	-11.1%	-9.1%	-8.5%	-9.7%
Commercial cost trend PMPM	\$220.58	\$236.04	\$231.55	\$250.84	\$234.50	\$237.47	\$248.33	\$247.58	\$260.58	\$248.45	7.7%	5.2%	6.9%	3.9%	5.9%
Medicare Risk (000)															
Ending Medicare Risk En.	447	435	429	426	426	468	476	481	488	488	4.7%	9.4%	12.1%	14.6%	14.6%
% of Prem.-based Enroll.	2.8%	2.8%	2.8%	2.8%	2.8%	3.3%	3.4%	3.4%	3.5%	3.5%					
Avg. Medicare Risk Enroll.	447	439	431	427	436	468	473	479	485	476	4.7%	7.8%	11.2%	13.8%	9.3%
Medicare Risk Revenue PMPM	\$847.00	\$852.00	\$858.00	\$858.00	\$853.70	\$827.00	\$832.00	\$834.00	\$834.00	\$831.80	-2.4%	-2.3%	-2.8%	-2.8%	-2.6%
Medicare+ Premium Risk Rev.	1,135	1,121	1,108	1,098	4,461	1,160	1,180	1,198	1,214	4,752	2.2%	5.3%	8.1%	10.6%	6.5%
Medicare MLR	80.0%	71.0%	77.0%	80.0%	77.0%	82.5%	83.0%	82.5%	84.5%	83.1%					
Medicare medical expenses	908	796	853	878	3,435	957	980	988	1,026	3,951	5.4%	23.1%	15.8%	16.8%	15.0%
Medicare cost trend PMPM	\$677.60	\$604.92	\$660.66	\$686.40	\$657.27	\$682.28	\$690.56	\$688.05	\$704.73	\$691.51	0.7%	14.2%	4.1%	2.7%	5.2%
Medicare Suppl. Enroll.(000)															
Ending Medicare Suppl. Enroll.	810	800	797	790	790	802	797	794	790	790	-1.0%	-0.4%	-0.4%	0.0%	0.0%
% of Prem.-based Enroll.	5.1%	5.1%	5.1%	5.1%	5.1%	5.7%	5.7%	5.7%	5.6%	5.6%					
Avg. Medicare Suppl. Enroll.	814	803	798	792	802	799	798	795	791	796	-1.9%	-0.6%	-0.4%	-0.1%	-0.8%
Est. Medicare Suppl. Revenue PMPM	\$182.33	\$182.83	\$185.83	\$186.83	\$184.40	\$188.83	\$189.33	\$192.33	\$195.33	\$191.40	3.6%	3.6%	3.5%	4.5%	3.8%
Est. Medicare Suppl. Revenue	445	440	445	444	1,774	452	453	458	463	1,828	1.6%	3.0%	3.1%	4.4%	3.0%
Medicare Suppl. MLR	79.0%	77.0%	74.0%	75.0%	76.2%	78.7%	76.7%	74.0%	74.7%	76.0%					
Medicare Suppl. medical expenses	352	339	329	333	1,353	356	348	339	346	1,389	1.2%	2.6%	3.1%	4.0%	2.7%
Medicare Suppl. cost trend PMPM	\$144.04	\$140.78	\$137.51	\$140.12	\$140.63	\$148.61	\$145.22	\$142.32	\$145.91	\$145.52	3.2%	3.2%	3.5%	4.1%	3.5%
Medicaid (000)															
Ending Medicaid Risk En.	1,742	1,777	1,717	1,733	1,733	1,768	1,793	1,818	1,833	1,833	1.5%	0.9%	5.9%	5.8%	5.8%
% of Prem.-based Enroll.	10.9%	11.3%	11.0%	11.2%	11.2%	12.5%	12.8%	13.0%	13.0%	13.0%					
Avg. Medicaid Risk Enroll.	1,799	1,765	1,737	1,728	1,757	1,759	1,785	1,810	1,828	1,795	-2.2%	1.1%	4.2%	6%	2.2%
Est. Medicaid Revenue PMPM	\$92.57	\$94.57	\$96.57	\$97.50	\$95.30	\$99.50	\$100.00	\$101.00	\$99.00	\$99.90	7.5%	5.7%	4.6%	1.5%	4.8%
Medicaid Premium Risk Rev.	499	501	503	505	2,009	525	535	548	543	2,152	5.1%	6.9%	9.0%	7.4%	7.1%
Medicaid MLR	90.0%	93.0%	90.4%	93.0%	91.6%	92.0%	93.5%	93.0%	92.5%	92.8%					
Medicaid medical expenses	449	466	455	470	1,840	483	501	510	502	1,996	7.5%	7.5%	12.1%	7%	8.5%
Medicaid cost trend PMPM	\$83.31	\$87.95	\$87.29	\$90.68	\$87.27	\$91.54	\$93.50	\$93.93	\$91.58	\$92.64	9.9%	6.3%	7.6%	1.0%	6.2%
Federal Employee Program															
Ending Fed Employ Enroll.	1,385	1,387	1,387	1,391	1,391	1,381	1,386	1,386	1,389	1,389	-0.3%	-0.1%	-0.1%	-0.1%	-0.1%
% of Prem.-based Enroll.	8.7%	8.8%	8.9%	9.0%	9.0%	9.8%	9.9%	9.9%	9.9%	9.9%					
Average FEHBP Enrollment	1,387	1,386	1,387	1,390	1,388	1,384	1,384	1,386	1,388	1,385	-0.3%	-0.1%	-0.1%	-0.1%	-0.1%
Est. FEHBP Revenue PMPM	\$338.50	\$342.50	\$345.00	\$347.00	\$343.30	\$356.00	\$361.00	\$363.50	\$365.50	\$361.50	5.2%	5.4%	5.4%	5.3%	5.3%
Est. Fed Employee Revenue	1,408	1,424	1,436	1,447	5,715	1,478	1,499	1,511	1,522	6,010	4.9%	5.2%	5.3%	5.2%	5.2%
FEHBP MLR	96.0%	96.2%	95.0%	95.5%	95.7%	95.5%	95.5%	95.0%	95.0%	95.2%					
FEHBP medical expenses	1,352	1,370	1,364	1,382	5,468	1,411	1,432	1,436	1,446	5,725	4.4%	4.5%	5.3%	4.7%	4.7%
FEHBP cost trend PMPM	\$324.96	\$329.49	\$327.75	\$331.39	\$328.40	\$339.98	\$344.76	\$345.33	\$347.23	\$344.32	4.6%	4.6%	5.4%	4.8%	4.9%
Total At-Risk Enrollment	15,913	15,742	15,539	15,434	15,434	14,123	14,061	14,023	14,059	14,059	-11.2%	-10.7%	-9.8%	-8.9%	-8.9%
Ending ASO Enrollment	18,646	18,479	18,316	18,236	18,236	19,576	19,511	19,461	19,486	19,486	5.0%	5.6%	6.3%	6.9%	6.9%
Average ASO Enrollment	18,646	18,535	18,370	18,543	18,523	19,576	19,533	19,478	19,478	19,516	5.0%	5.4%	6.0%	5.0%	5.4%
Est. ASO Revenue PMPM	\$13.96	\$14.47	\$14.36	\$13.92	\$14.20	\$13.67	\$13.72	\$13.82	\$13.92	\$13.80	-2.1%	-5.2%	-3.8%	0.0%	-2.8%
ASO Revenue	781	804	792	774	3,151	803	804	808	813	3,228	2.8%	-0.1%	2.0%	5.1%	2.4%
Total medical enrollment	34,559	34,221	33,855	33,670	33,670	33,699	33,572	33,484	33,545	33,545	-2.5%	-1.9%	-1.1%	-0.4%	-0.4%

Source: Cowen and Company, Company documents

WLP Enrollment 2011E

(\$ mil) FY ending Dec. 31	1Q11E	2Q11E	3Q11E	4Q11E	2011E	1Q11E %CHG	2Q11E %CHG	3Q11E %CHG	4Q11E %CHG	11/09E %CHG
Comm. At-Risk En. (000)										
Ending Comm. At-Risk En.	9,655	9,705	9,740	9,760	9,760	-0.5%	1.0%	2.0%	2.1%	2.1%
% of Prem.-based Enroll.	68.2%	68.2%	68.2%	68.2%	68.2%					
Avg. Comm. At-Risk En.	9,655	9,688	9,728	9,753	9,706	-0.5%	0.5%	1.7%	2.1%	0.9%
Commercial Risk Revenue PMPM	\$315.70	\$320.70	\$324.70	\$328.70	\$322.50	5.7%	5.3%	5.2%	5.5%	5.4%
Comm. At-Risk Premium Rev.	9,144	9,321	9,476	9,618	37,560	5.1%	5.8%	7.0%	7.6%	6.4%
Commercial MLR	80.0%	81.8%	80.5%	84.1%	81.6%					
Commercial medical expenses	7,315	7,625	7,628	8,089	30,657	5.8%	6.1%	7.4%	8.3%	6.9%
Commercial cost trend PMPM	\$252.56	\$262.33	\$261.38	\$276.44	\$263.21	6.4%	5.6%	5.6%	6.1%	5.9%
Medicare Risk (000)										
Ending Medicare Risk En.	448	438	430	421	421	-4.3%	-8.0%	-10.6%	-13.7%	-13.7%
% of Prem.-based Enroll.	3.2%	3.1%	3.0%	2.9%	2.9%					
Avg. Medicare Risk Enroll.	448	441	432	424	436	-4.3%	-6.8%	-9.7%	-12.7%	-8.4%
Medicare Risk Revenue PMPM	\$842.00	\$847.00	\$849.00	\$851.00	\$847.20	1.8%	1.8%	1.8%	2.0%	1.9%
Medicare+ Premium Risk Rev.	1,130	1,120	1,101	1,081	4,432	-2.5%	-5.1%	-8.1%	-10.9%	-6.7%
Medicare MLR	83.8%	84.3%	83.8%	85.8%	84.4%					
Medicare medical expenses	947	944	922	928	3,742	-1.0%	-3.6%	-6.7%	-9.6%	-5.3%
Medicare cost trend PMPM	\$705.60	\$714.02	\$711.46	\$730.16	\$715.14	3.4%	3.4%	3.4%	3.6%	3.4%
Medicare Supp. Enroll. (000)										
Ending Medicare Suppl. Enroll.	810	825	832	835	835	1.0%	3.5%	4.8%	5.7%	5.7%
% of Prem.-based Enroll.	5.7%	5.8%	5.8%	5.8%	5.8%					
Avg. Medicare Suppl. Enroll.	805	820	829	834	822	0.8%	2.7%	4.4%	5.4%	3.3%
Est. Medicare Supp. Revenue PMPM	\$198.33	\$198.83	\$201.83	\$204.83	\$201.00	5.0%	5.0%	4.9%	4.9%	5.0%
Est. Medicare Supp. Revenue	479	489	502	512	1,982	5.8%	7.8%	9.5%	10.5%	8.4%
Medicare Supp. MLR	78.4%	76.4%	74.0%	74.4%	75.8%					
Medicare Supp. medical expenses	375	373	372	381	1,501	5.4%	7.4%	9.5%	10.1%	8.1%
Medicare Supp. cost trend PMPM	\$155.49	\$151.91	\$149.35	\$152.39	\$152.26	4.6%	4.6%	4.9%	4.4%	4.6%
Medicaid (000)										
Ending Medicaid Risk En.	1,848	1,857	1,867	1,875	1,875	4.5%	3.6%	2.7%	2.3%	2.3%
% of Prem.-based Enroll.	13.0%	13.0%	13.1%	13.1%	13.1%					
Avg. Medicaid Risk Enroll.	1,844	1,854	1,864	1,872	1,859	4.8%	3.9%	3.0%	2%	3.5%
Est. Medicaid Revenue PMPM	\$101.00	\$101.50	\$105.50	\$105.50	\$103.40	1.5%	1.5%	4.5%	6.6%	3.5%
Medicaid Premium Risk Rev.	559	565	590	593	2,306	6.4%	5.4%	7.6%	9.2%	7.2%
Medicaid MLR	93.0%	93.5%	93.2%	93.5%	93.3%					
Medicaid medical expenses	520	528	550	554	2,151	7.6%	5.4%	7.8%	10%	7.8%
Medicaid cost trend PMPM	\$93.93	\$94.90	\$98.33	\$98.64	\$96.46	2.6%	1.5%	4.7%	7.7%	4.1%
Federal Employee Program										
Ending Fed Employ Enroll.	1,404	1,409	1,414	1,417	1,417	1.7%	1.7%	2.0%	2.0%	2.0%
% of Prem.-based Enroll.	9.9%	9.9%	9.9%	9.9%	9.9%					
Average FEHBP Enrollment	1,400	1,407	1,412	1,416	1,409	1.2%	1.7%	1.9%	2.0%	1.7%
Est. FEHBP Revenue PMPM	\$374.50	\$379.50	\$382.00	\$384.00	\$380.00	5.2%	5.1%	5.1%	5.1%	5.1%
Est. Fed Employee Revenue	1,573	1,602	1,619	1,631	6,425	6.5%	6.9%	7.1%	7.2%	6.9%
FEHBP MLR	95.7%	95.7%	95.2%	95.2%	95.4%					
FEHBP medical expenses	1,506	1,533	1,541	1,553	6,133	6.7%	7.1%	7.3%	7.4%	7.1%
FEHBP cost trend PMPM	\$358.40	\$363.18	\$363.66	\$365.57	\$362.71	5.4%	5.3%	5.3%	5.3%	5.3%
Total At-Risk Enrollment	14,164	14,233	14,282	14,307	14,307	0.3%	1.2%	1.8%	1.8%	1.8%
Ending ASO Enrollment	19,711	19,696	19,731	19,766	19,766	0.7%	0.9%	1.4%	1.4%	1.4%
Average ASO Enrollment	19,711	19,701	19,719	19,754	19,721	0.7%	0.9%	1.2%	1.4%	1.1%
Est. ASO Revenue PMPM	\$13.67	\$13.72	\$13.82	\$13.92	\$13.80	0.0%	0.0%	0.0%	0.0%	0.0%
ASO Revenue	808	811	818	825	3,262	0.7%	0.9%	1.2%	1.4%	1.1%
Total medical enrollment	33,875	33,929	34,013	34,073	34,073	0.5%	1.1%	1.6%	1.6%	1.6%

Source: Cowen and Company, Company documents

WLP Enrollment Model 2009-2010E

(\$ mil) FY ending Dec. 31	1Q09	2Q09	3Q09	4Q09	2009	1Q10E	2Q10E	3Q10E	4Q10E	2010E	%CHG	%CHG	%CHG	%CHG	%CHG
Ending Comm. At-Risk En.	11,530	11,344	11,210	11,095	11,095	9,705	9,610	9,545	9,560	9,560	-15.8%	-15.3%	-14.9%	-13.8%	-13.8%
Ending Medicare + Choice Risk En.	447	435	429	426	426	468	476	481	488	488					
Ending Medicare Supp En.	810	800	797	790	790	802	797	794	790	790	-1.0%	-0.4%	-0.4%	0.0%	0.0%
Ending Medicaid Risk En.	1,742	1,777	1,717	1,733	1,733	1,768	1,793	1,818	1,833	1,833	1.5%	0.9%	5.9%	5.8%	5.8%
Ending Fed. Employ. En.	1,385	1,387	1,387	1,391	1,391	1,381	1,386	1,386	1,389	1,389	-0.3%	-0.1%	-0.1%	-0.1%	-0.1%
Ending ASO Enroll.	18,646	18,479	18,316	18,236	18,236	19,576	19,511	19,461	19,486	19,486	5.0%	5.6%	6.3%	6.9%	6.9%
Total Medical Enrollment	34,559	34,221	33,855	33,670	33,670	33,699	33,572	33,484	33,545	33,545	-2.5%	-1.9%	-1.1%	-0.4%	-0.4%
	33.4%	33.1%	33.1%	33.0%	33.0%	28.8%	28.6%	28.5%	28.5%	28.5%					
Specialty enrollment															
Ending Medicare PDP En.	1,212	1,172	1,142	1,118	1,118	743	708	683	668	668	-38.7%	-39.6%	-40.2%	-40.3%	-40.3%
PBM Script Volume	65,860	65,834	65,546	44,729	241,969	0	0	0	0	0					
Est. PBM Enrollment	30,954	30,942	30,807	30,657		30,907	30,857	30,792	30,792						
Behavioral	23,525	22,998	22,883	22,965		23,715	23,655	23,720	23,795						
Life and disability	5,470	5,437	5,425	5,393		5,368	5,323	5,308	5,328						
Dental	4,374	8,372	8,275	8,233		8,383	8,358	8,368	8,383						
Vision	2,782	2,826	3,037	3,088		3,213	3,268	3,343	3,393						
Est. Specialty En. (derived on Rx)	67,105	70,575	70,427	70,336	70,336	71,586	71,461	71,531	71,691	71,691	6.7%	1.3%	1.6%	1.9%	1.9%
At-risk Specialty Enrollment	20,803	20,678	20,776	20,679	20,734	20,402	20,366	20,386	20,432	20,397	-1.9%	-1.5%	-1.9%	-1.2%	-1.6%
Average at-risk specialty Enrollment	21,785	20,741	20,727	20,727	20,995	20,540	20,384	20,376	20,409	20,427	-5.7%	-1.7%	-1.7%	-1.5%	-2.7%
Avg. Specialty Enrollment PMPM	\$9.46	\$9.48	\$9.50	\$9.51	\$9.49	\$9.96	\$9.98	\$10.00	\$10.01	\$9.99	5.3%	5.3%	5.3%	5.3%	5.3%
Specialty Premium Revenue	618	590	591	591	2,390	614	610	611	613	2,448	-0.7%	3.5%	3.5%	3.6%	2.4%
Specialty MLR	67.0%	67.5%	67.5%	72.5%	68.6%	80.0%	80.5%	79.5%	79.0%	79.7%					
Specialty medical expenses	414	398	399	429	1,640	491	491	486	484	1,952	18.5%	23.4%	21.9%	12.9%	19.1%
Specialty cost trend PMPM	\$6.34	\$6.40	\$6.41	\$6.89	\$6.51	\$7.97	\$8.03	\$7.95	\$7.91	\$7.96	25.7%	25.5%	24.0%	14.7%	22%
ASO Specialty Enrollment	46,303	49,897	49,651	49,657	48,877	51,184	51,094	51,144	51,259	51,170	10.5%	2.4%	3.0%	3.2%	4.7%
Average ASO specialty enrollment	45,749	48,699	49,733	49,655	48,459	50,420	51,124	51,128	51,221	50,973	10.2%	5.0%	2.8%	3.2%	5.2%
ASO specialty enrollment PMPM	\$1.17	\$1.18	\$1.19	\$1.20	\$1.19	\$1.23	\$1.24	\$1.25	\$1.26	\$1.25	5.1%	5.1%	5.0%	5.0%	5.0%
Specialty ASO/Gov't Revenue	161	172	178	179	689	186	190	192	194	762	15.9%	10.3%	8.0%	8.3%	10.5%
Senior loss ratio	85.7%	75.5%	76.4%	77.6%	78.9%	85.0%	81.8%	79.8%	80.1%	81.7%					
Medicare PDP enrollment	1,212	1,172	1,142	1,118	1,118	743	708	683	668	668	-38.7%	-39.6%	-40.2%	-40.3%	-40.3%
Medicare PDP average enrollment	1,212	1,192	1,157	1,130	1,173	743	726	696	676	710	-38.7%	-39.1%	-39.9%	-40.2%	-39.5%
Medicare PDP PMPM	\$ 107.00	\$ 82.75	\$ 73.28	\$ 80.20	\$86.07	\$ 112.35	\$ 86.89	\$ 76.94	\$ 84.21	\$90.48	5.0%	5.0%	5.0%	5.0%	5.1%
Medicare PDP revenue	389	296	254	272	1211	250	189	161	171	771	-35.6%	-36.1%	-36.9%	-37.2%	-36.4%
Medicare PDP MLR	110.0%	90.0%	78.0%	72.0%	89.9%	108.0%	87.0%	76.0%	63.0%	86.2%					
Medicare PDP medical expenses	428	266	198	196	1,088	270	165	122	108	665	-36.8%	-38.2%	-38.5%	-45.1%	-38.9%
Medicare PDP gross margin	(39)	30	56	76	123	(20)	25	39	63	106	-48.5%	-16.9%	-31.1%	-17.1%	-13.5%
Medicare PDP gross margin PMPM	-\$10.70	\$8.27	\$16.12	\$22.46	\$8.72	-\$8.99	\$11.30	\$18.47	\$31.16	\$12.47	-16.0%	36.5%	14.5%	38.8%	42.9%
Assumed SG&A ratio	8.0%	8.0%	8.0%	9.0%	8.2%	8.0%	8.0%	9.0%	9.0%	8.4%					
Implied SG&A	31	24	20	24	100	20	15	14	15	65	-35.6%	-36.1%	-29.0%	-37.2%	-34.8%
EBITDA contribution	(70)	6	36	52	23	(40)	9	24	48	41	-42.8%	59.8%	-32.4%	-7.5%	78.1%
EBITDA margin	-18.0%	2.0%	14.0%	19.0%	1.9%	-16.0%	5.0%	15.0%	28.0%	5.4%					
Net Income Contribution	(45)	4	23	35	15	(26)	6	16	32	27	-42.9%	55.4%	-32.7%	-9.7%	76.0%
EPS Contribution	-\$0.09	\$0.01	\$0.05	\$0.08	\$0.04	-\$0.06	\$0.01	\$0.04	\$0.08	\$0.07	-36.0%	79.5%	-21.0%	4.2%	74.8%

Source: Cowen and Company, Company documents

WLP Enrollment Model 2011E

(\$ mil) FY ending Dec. 31	1Q11E	2Q11E	3Q11E	4Q11E	2011E	%CHG	%CHG	%CHG	%CHG	%CHG
Ending Comm. At-Risk En.	9,655	9,705	9,740	9,760	9,760	-0.5%	1.0%	2.0%	2.1%	2.1%
Ending Medicare + Choice Risk En.	448	438	430	421	421					
Ending Medicare Supp En.	810	825	832	835	835	1.0%	3.5%	4.8%	5.7%	5.7%
Ending Medicaid Risk En.	1,848	1,857	1,867	1,875	1,875	4.5%	3.6%	2.7%	2.3%	2.3%
Ending Fed. Employ. En.	1,404	1,409	1,414	1,417	1,417	1.7%	1.7%	2.0%	2.0%	2.0%
Ending ASO Enroll.	19,711	19,696	19,731	19,766	19,766	0.7%	0.9%	1.4%	1.4%	1.4%
Total Medical Enrollment	33,875	33,929	34,013	34,073	34,073	0.5%	1.1%	1.6%	1.6%	1.6%
	28.5%	28.6%	28.6%	28.6%	28.6%					
Specialty enrollment										
Ending Medicare PDP En.	818	833	845	858	858	10.1%	17.7%	23.7%	28.4%	28.4%
PBM Script Volume	0	0	0	0	0					
Est. PBM Enrollment	30,942	30,967	30,997	30,997	30,997					
Behavioral	23,865	23,900	23,965	24,040	24,040					
Life and disability	5,253	5,208	5,193	5,168	5,168					
Dental	8,493	8,518	8,528	8,543	8,543					
Vision	3,448	3,473	3,523	3,548	3,548					
Est. Specialty En. (derived on Rx)	72,001	72,066	72,206	72,296	72,296	0.6%	0.8%	0.9%	0.8%	0.8%
At-risk Specialty Enrollment	20,160	20,178	20,218	20,243	20,200	-1.2%	-0.9%	-0.8%	-0.9%	-1.0%
Average at-risk specialty Enrollment	20,296	20,169	20,198	20,230	20,223	-1.2%	-1.1%	-0.9%	-0.9%	-1.0%
Avg. Specialty Enrollment PMPM	\$10.46	\$10.48	\$10.50	\$10.51	\$10.49	5.0%	5.0%	5.0%	5.0%	5.0%
Specialty Premium Revenue	637	634	636	638	2,545	3.8%	3.9%	4.1%	4.1%	4.0%
Specialty MLR	79.5%	79.3%	79.8%	79.5%	79.5%					
Specialty medical expenses	506	503	508	507	2,024	3.1%	2.4%	4.5%	4.7%	3.7%
Specialty cost trend PMPM	\$8.32	\$8.31	\$8.38	\$8.36	\$8.34	4.4%	3.4%	5.4%	5.7%	5%
ASO Specialty Enrollment	51,840	51,887	51,988	52,053	51,942	1.3%	1.6%	1.6%	1.5%	1.5%
Average ASO specialty enrollment	51,550	51,872	51,954	52,031	51,852	2.2%	1.5%	1.6%	1.6%	1.7%
ASO specialty enrollment PMPM	\$1.30	\$1.31	\$1.33	\$1.34	\$1.32	5.7%	5.6%	6.4%	6.3%	6.0%
Specialty ASO/Gov't Revenue	201	204	207	209	821	8.1%	7.2%	8.1%	8.0%	7.9%
Senior loss ratio	86.1%	82.5%	80.2%	79.8%	82.2%					
Medicare PDP enrollment	818	833	845	858	858	10.1%	17.7%	23.7%	28.4%	28.4%
Medicare PDP average enrollment	818	826	839	852	834	10.1%	13.8%	20.6%	26.1%	17.4%
Medicare PDP PMPM	\$ 115.72	\$ 89.49	\$ 79.25	\$ 86.74	\$92.65	3.0%	3.0%	3.0%	3.0%	2.4%
Medicare PDP revenue	284	222	199	222	927	13.4%	17.2%	24.3%	29.8%	20.2%
Medicare PDP MLR	108.0%	87.0%	76.0%	63.0%	85.3%					
Medicare PDP medical expenses	307	193	152	140	791	13.4%	17.2%	24.3%	29.8%	19.0%
Medicare PDP gross margin	(23)	29	48	82	136	13.4%	17.2%	24.3%	29.8%	28.0%
Medicare PDP gross margin PMPM	-\$9.26	\$11.63	\$19.02	\$32.09	\$13.59	3.0%	3.0%	3.0%	3.0%	9.0%
Assumed SG&A ratio	6.5%	7.7%	7.7%	7.7%	7.3%					
Implied SG&A	18	17	15	17	68	-7.9%	12.8%	6.3%	11.1%	4.6%
EBITDA contribution	(41)	12	33	65	68	2.8%	24.2%	35.0%	35.9%	64.9%
EBITDA margin	-14.5%	5.3%	16.3%	29.3%	7.3%					
Net Income Contribution	(26)	7	21	43	44	2.1%	23.5%	34.2%	35.1%	63.8%
EPS Contribution	-\$0.07	\$0.02	\$0.06	\$0.12	\$0.12	15.5%	34.9%	44.1%	45.3%	65.8%

Source: Cowen and Company, Company documents

WLP Balance Sheet 2009-2011E

(\$ millions)	1Q09	2Q09	3Q09	4Q09	2009	1Q10E	2Q10E	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Fixed maturity securities	\$15,016.6	\$15,754.2	\$16,345.7	\$16,702.6											
Equity securities	\$856.1	\$898.1	\$1,075.1	\$1,069.7											
Short term investments	\$15,873	\$16,652	\$17,421	\$17,772	\$17,772	\$16,732	\$16,863	\$16,949	\$17,091	\$17,091	\$17,503	\$17,682	\$17,897	\$18,110	\$18,110
Cash & cash equivalents	2,378.1	\$1,725	\$1,842	\$4,816	\$4,816	3,820.4	\$2,486	\$1,960	\$2,000	\$2,000	2,491.5	\$1,255	\$1,049	\$1,077	\$1,077
Accounts Receivable	3,525	3,458	3,276	3,281	3,281	3,126	2,992	2,902	2,926	2,926	3,068	3,143	3,070	3,107	3,107
Days Receivables	22	22	21	22	21	21	21	20	20	20	20	21	20	20	20
Other receivables	1,401	515	505	880	880	1,171	1,182	1,190	1,214	1,214	1,273	1,288	1,305	1,336	1,336
Income tax receivables	731	741	361	524	524	524	524	524	524	524	524	524	524	524	524
Other Current Assets	1,847	2,929	2,999	1,836	1,836	1,836	1,836	1,836	1,836	1,836	1,836	1,836	1,836	1,836	1,836
Total Current Assets	25,755	26,020	26,405	29,109	29,109	27,209	25,883	25,360	25,591	25,591	26,696	25,729	25,680	25,990	25,990
Property & Equipment, net	1,052	1,038	1,068	1,100	1,100	1,340	1,395	1,485	1,577	1,577	1,641	1,699	1,792	1,889	1,889
Goodwill	13,460	13,309	13,308	13,265	13,265	13,265	13,265	13,265	13,265	13,265	13,265	13,265	13,265	13,265	13,265
Other Intangible assets	8,762	8,613	8,341	8,259	8,259	8,197	8,135	8,075	8,014	8,014	7,956	7,898	7,842	7,786	7,786
Other Assets	386	365	376	393	393	370	373	375	378	378	388	392	397	402	402
Total Assets	49,415	49,344	49,498	52,125	52,125	50,381	49,051	48,560	48,826	48,826	49,945	48,983	48,976	49,332	49,332
Unpaid Life, Accident, and Health Claims	6,168	5,906	5,763	5,451	5,451	5,562	5,610	5,493	5,691	5,691	6,248	6,171	5,963	6,208	6,208
Days claims payable (1)	47.8	44.9	45.9	41.2	41	46.5	46.2	45.5	46.8	47	51.5	47.7	46.2	48.0	48
Conventional days claims	47.9	45.9	46.4	42.3	42	46.0	46.0	46.0	46.0	46	49.0	48.0	47.0	47.0	47
Future Policy Benefits	63	61	61	63	63	63	63	63	63	63	63	63	63	63	63
Other Policyholder Liabilities	1,678	1,550	1,566	1,618	1,618	1,668	1,498	1,523	1,583	1,583	1,583	1,583	1,583	1,583	1,583
Unearned Income	1,153	1,067	1,089	1,050	1,050	989	997	1,002	1,011	1,011	1,037	1,048	1,060	1,073	1,073
A/P and Accrued Expenses	3,004	2,754	2,762	2,994	2,994	3,171	3,013	2,970	3,075	3,075	3,472	3,435	3,414	3,552	3,552
Income Taxes Payable	196	-	97	1,229	1,229	155	-	25	45	45	190	-	100	120	120
Securities trades pending payable	28	54	34	38	38	38	38	38	38	38	38	38	38	38	38
Securities lending payable	474	331	387	397	397	322	237	287	337	337	337	337	337	337	337
Other Current Liabilities	2,577	2,620	2,368	1,836	1,836	1,761	1,791	1,641	1,391	1,391	1,391	1,391	1,391	1,391	1,391
Total Current Liabilities	15,341	14,342	14,126	14,674	14,674	13,728	13,245	13,041	13,232	13,232	14,357	14,064	13,948	14,363	14,363
Long-Term Debt, net.	8,527	8,514	8,384	8,338	8,338	8,338	8,338	7,838	7,838	7,838	7,838	7,138	7,138	7,138	7,138
% of total capital	28.4%	27.7%	26.8%	25.1%	0	25.6%	26.3%	25.0%	24.9%	0	24.8%	23.1%	23.0%	23.1%	0
Retirement Benefit/Reserves for fut. policy benefits	663	660	660	665	665	665	665	665	665	665	665	665	665	665	665
Deferred Income Taxes	2,119	2,302	2,230	2,470	2,470	2,300	2,320	2,330	2,340	2,340	2,240	2,260	2,270	2,280	2,280
Other Noncurrent Liabilities	1,258	1,273	1,230	1,115	1,115	1,115	1,115	1,115	1,115	1,115	1,115	1,115	1,115	1,115	1,115
Total Liabilities	27,907	27,091	26,630	27,262	27,262	26,146	25,684	24,989	25,190	25,190	26,215	25,242	25,136	25,562	25,562
Common Stock	4.8	4.8	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Additional Paid in Capital	16,278	16,032	15,664	15,192	15,192	13,715	12,226	11,690	11,193	11,193	10,604	9,983	9,333	8,731	8,731
Retained Earnings	5,971	6,640	7,127	9,599	9,599	10,267	10,888	11,628	12,190	12,190	12,873	13,504	14,254	14,786	14,786
Accumulated & Other Comprehensive Income	(746)	(423)	73	68	68	249	249	249	249	249	249	249	249	249	249
Total Equity	21,508	22,253	22,867	24,863	24,863	24,235	23,368	23,571	23,636	23,636	23,730	23,741	23,840	23,770	23,770
% of total capital	71.6%	72.3%	73.2%	74.9%	74.9%	74.4%	73.7%	75.0%	75.1%	75.1%	75.2%	76.9%	77.0%	76.9%	76.9%
book value/share	\$43.17	\$45.76	\$47.96	\$53.92	\$51.73	\$54.59	\$55.49	\$58.02	\$59.17	\$56.59	\$60.44	\$61.60	\$63.03	\$64.00	\$62.24
Total Liab. & Equity	49,415	49,344	49,498	52,125	52,125	50,381	49,051	48,560	48,826	48,826	49,945	48,983	48,976	49,332	49,332

Source: Cowen and Company, Company documents

WLP Statement of Cash Flows 2009-2011E

(\$ millions)	1Q09	2Q09	3Q09	4Q09	2009	1Q10E	2Q10E	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Cash Flow from Operating Activities															
Net income	580.4	693.5	729.2	2,742.8	4,745.9	668.9	621.0	739.4	561.8	2,591.1	683.1	631.6	749.5	532.5	2,596.8
Realized gains (losses) on investments	352.5	58.3	(21.5)	(3,787.8)	(3,398.5)	-	-	-	-	-	-	-	-	-	-
Depreciation	26.1	26.2	26.4	28.4	107.1	25.0	25.0	25.0	26.0	101.0	26.0	27.0	27.0	28.0	108.0
amortization and accretion	109.6	115.4	112.7	108.7	446.4	62.5	61.5	60.5	60.5	245.0	58.5	57.5	56.5	55.5	228.0
Stock Compensation Expense	24.1	52.6	39.0	37.9	153.6	27.0	53.0	40.0	40.0	160.0	29.0	55.0	42.0	42.0	168.0
Deferred income taxes	(10.5)	26.9	(29.4)	64.7	51.7	-	-	-	-	-	-	-	-	-	-
Gain (loss) from discontinued operations	-	-	205.5	57.0	262.5	-	-	-	-	-	-	-	-	-	-
Gain (loss) on sale of assets	0.3	0.6	8.1	7.4	16.4	-	-	-	-	-	-	-	-	-	-
Change in operating assets & liabilities:															
Receivables	(486.1)	109.6	249.0	(356.7)	(484.2)	(136.2)	122.7	82.7	(49.2)	19.9	(200.7)	(89.9)	56.0	(68.6)	(303.1)
Other assets	6.3	8.0	(43.9)	(152.2)	(181.8)	22.7	(3.0)	(1.9)	(3.2)	14.7	(9.7)	(4.1)	(4.8)	(4.8)	(23.4)
Policy liabilities/ medical payables	31.2	(398.5)	(125.4)	(255.5)	(748.2)	161.6	(121.9)	(91.8)	257.2	205.1	557.5	(77.1)	(208.0)	244.5	517.0
Unearned income	65.4	(79.5)	24.4	(37.6)	(27.3)	(60.7)	7.9	5.0	8.5	(39.4)	25.9	11.0	12.8	12.8	62.6
A/P and accrued expenses	120.3	(92.0)	215.3	709.2	952.8	74.7	(296.2)	(32.7)	115.2	(139.1)	367.9	(92.1)	(62.8)	96.3	309.3
Other liabilities	25.3	110.6	(113.6)	(271.2)	(248.9)	(75.0)	30.0	(150.0)	(250.0)	(445.0)	-	-	-	-	-
Income taxes	347.1	(254.1)	162.7	1,135.7	1,391.4	(1,243.7)	(135.0)	35.0	30.0	(1,313.7)	45.0	(170.0)	110.0	30.0	15.0
Net cash used in discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash from Operating Activities	1,192.0	377.6	1,438.5	30.8	3,038.9	(473.2)	364.9	711.2	796.7	1,399.7	1,582.6	349.0	778.1	968.3	3,678.1
Cash Flow from Investing Activities															
Investment securities, net	(717.9)	(14.0)	(87.2)	(374.1)	(1,193.2)	1,040.0	(130.5)	(86.0)	(142.3)	681.2	(411.9)	(179.3)	(214.5)	(212.9)	(1,018.5)
Dispositions (acquisitions) of subsidiaries, net	(1.1)	(65.2)	0.0	4,672.3	4,606.0	-	-	-	-	-	-	-	-	-	-
Capital Expenditures, net	(68.9)	(89.0)	(114.4)	(106.1)	(378.4)	(85.0)	(80.0)	(115.0)	(118.0)	(398.0)	(90.0)	(85.0)	(120.0)	(125.0)	(420.0)
Proceeds from sale of PP&E and Other	(3.0)	0.2	-	(28.8)	(31.6)	-	-	-	-	-	-	-	-	-	-
Net Cash from Investing Activities	(790.9)	(168.0)	(201.6)	4,163.3	3,002.8	955.0	(210.5)	(201.0)	(260.3)	283.2	(501.9)	(264.3)	(334.5)	(337.9)	(1,438.5)
Cash Flow from Financing Activities															
Proceeds from long-term debt	992.3	-	-	(100.0)	892.3	-	-	(500.0)	-	(500.0)	-	(700.0)	-	-	(700.0)
Repayment of long-term debt	(501.2)	(141.4)	(316.9)	(356.8)	(1,316.3)	-	-	-	-	-	-	-	-	-	-
Common Stock, net.	(663.3)	(412)	(659)	(778)	(2,511.9)	(1,477)	(1,489)	(536)	(497)	(3,999.2)	(589)	(621)	(650)	(602)	(2,462.5)
Equity Security Units, net.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess tax benefits from share based compensation	0.7	1.0	3.6	4.3	9.6	-	-	-	-	-	-	-	-	-	-
Other	(35.4)	(312.3)	(149.2)	20.4	(476.5)	-	-	-	-	-	-	-	-	-	-
Net Cash from Financing Activities	(206.9)	(864.3)	(1,121.4)	(1,210.2)	(3,402.8)	(1,477.4)	(1,488.8)	(1,036.1)	(497.0)	(4,499.2)	(589.0)	(1,321.1)	(650.3)	(602.1)	(3,162.5)
Net Effects of Foreign Exchange	-	1.2	2.2	(10.1)	(6.7)	-	-	-	-	-	-	-	-	-	-
Beginning cash	2,183.9	2,378.1	1,724.6	1,842.3	2,183.9	4,816.1	3,820.4	2,486.1	1,960.3	4,816.1	1,999.7	2,491.5	1,255.1	1,048.5	1,999.7
Net increase (decrease) cash	194.2	(654.7)	115.5	2,983.9	2,638.9	(995.7)	(1,334.3)	(525.8)	39.4	(2,816.4)	491.7	(1,236.3)	(206.6)	28.3	(922.9)
Ending cash	2,378.1	1,724.6	1,842.3	4,816.1	4,816.1	3,820.4	2,486.1	1,960.3	1,999.7	1,999.7	2,491.5	1,255.1	1,048.5	1,076.9	1,076.9

Source: Cowen and Company, Company documents

Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
WLP	WellPoint, Inc.

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(a) Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

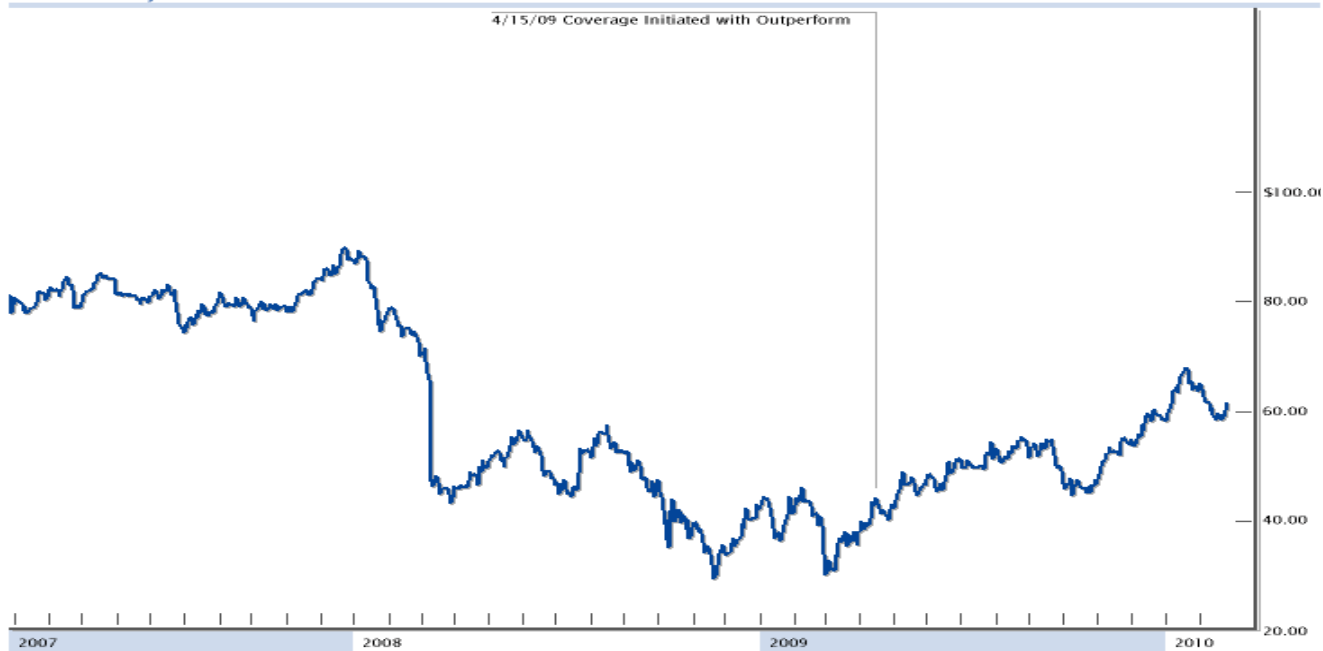
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WellPoint, Inc. - WLP



Pricing data provided by Reuters America. Chart as of 2/25/10 in \$US.