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Conference Call Transcript

WLP - WellPoint Updates Earnings Outlook for 2004 and 2005

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PLEASE NOTE: THIS TRANSCRIPT HAS BEEN EDITED FOR ACCURACY

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PRESENTATION

Operator

Good morning. Ladies and gentlemen, thank you for standing by. Welcome to WellPoint Inc. earnings guidance call. At this time, all participants are in a listen only mode. Later, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS)

As a reminder, today's conference call is being recorded. I will now turn the conference call over to your host, vice president of investor relations, Ms. Tami Durle.

Tami Durle

Good morning and welcome to Wellpoint's 2005 earnings guidance call. I am Tami Durle and joining me is David Colby, our CFO. Before we begin, I would like to caution you that comments today will include forward-looking statements. The statements made during this call that are not historical facts are forward-looking statements within the meaning of federal securities laws and may involve a number of risk and uncertainties.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, the risks discussed in the Company's most recent filings with the SEC including its annual report on Form 10-K for the year ended December 31st, 2003, and its quarterly reports on Form 10-Q for the reporting periods of 2004.

I will now turn the call over to Dave.

David Colby

Thank you, Tami, and I also am pleased to be with you today for our 2005 earnings conference call and want to thank everybody who is on the phone for your interest.

In terms of the agenda for today's call I'm going to cover a couple of things. One, I want to go over some housekeeping issues in terms of our leadership, SEC reporting segments and the new format that we will be using for our income statement on a going forward basis.

Then I would like to get into more specifics on our 2004 guidance that includes one month of the legacy WellPoint Health Networks in December, provide some 2005 guidance including detail by quarter, and then conclude with an update on where we stand with our section 404 certification under the Sarbanes-Oxley Act and, finally, conclude with a question-and-answer session.

Beginning with some of the housekeeping items, I think everybody is aware now that we have announced the leadership team for the new WellPoint, Inc. going forward and I think as you go through those names you'll see it is an excellent new group of people, starting with our President and CEO Larry Glasscock, who many of you are familiar with, Leonard Schaeffer, the Chairman of the Board of the Company, myself as the Chief Financial Officer and then more of the recent announcements: Dr. Sam Nussbaum, who was the chief medical officer at old Anthem and will be going forward. In the actuarial area, very pleased that Alice Rosenblatt will be our chief actuary and head of our integration efforts and that Cindy Miller, the former chief actuary at Anthem, will be remaining with us as our valuation actuary.

I think our actuarial team is exceptionally strong. When you go through that list of actuaries I think we have added up that we have eight former chief actuaries of various health plans -- dental and health plans. And so I think Alice and Cindy have a great group of people to work with.

David Frick will be our Chief Legal and Administrative Officer, Ron Ponder from the legacy WellPoint will be our Chief Information Officer and Mark Boxer, our Chief Strategy Officer.

We are going to be organized into five geographic regions, plus our Specialty and National accounts area. First, we will have a central region headed up by Keith Faller, which includes our Indiana, Kentucky, Missouri, Ohio HealthLink and UNICARE operations. We will have a separate region for Wisconsin, which will also include our Medicare contractor business headed up by Becky Kapustay, our Northeast region consisting of Connecticut, Maine, and New Hampshire will be led by Marjorie Dorr. Our West region, which will include California, Colorado, and Nevada will be headed up by David Helwig. Tom Snead will head up our Southeast region, which will now combine Georgia and Virginia. John Watts will run our National accounts area and Joan Herman will run our Specialty, our Senior market and State-Sponsored program.

I think this is a very talented and experienced team and I'm particularly pleased with the group. I really think we do have the best of the best in terms of management talent.

Going forward, starting with the fourth quarter results, our SEC reporting segments will be broken into three categories. First, our healthcare segment which will include all of our health insurance geographies, including National accounts. We will have a separate reporting segment for our Specialty segment which will include our Pharmacy, Dental, Vision, Life, Behavioral Health, and our Workers Compensation managed care services. And then we will have another segment which will be generally be corporate eliminations.

There will be some reporting format changes on our P&L. I just want to go through what our P&L will look like going forward. First category will be operating revenues and we will actually break operating revenues down into premiums, administrative fees, and other revenues. And these other revenues will be primarily the revenue from our mail-order pharmacy operations.

We will then get to a total revenue number, which will be the operating revenue, and we will have a line item for net investment income. And we will break out realized gains or losses on investments as a separate line item.

On the operating expense line, we will actually split operating expenses into a little bit more detail than either of the former companies did. We will have primarily three line items for operating expenses. First will be selling expenses, which is primarily outside sales commissions, second is our normal general and administrative expenses and the third is we are going to break out the cost of drugs sold through our mail order pharmacy in a separate line item.

So therefore going forward the SG&A ratio that we will look at will now be computed as selling plus general and administrative expenses divided by operating revenue. So we will be excluding the cost of drugs sold in that computation. To give you an order of magnitude the SG&A ratio will be about 50 basis points lower in 2004 than the administrative expense ratio formerly calculated by legacy Anthem, primarily because we are excluding the cost of mail-order drugs.

We will also have line items for, obviously, benefit expense, amortization of intangible assets and interest expense. And when you add those to the operating expenses I discussed before, that will bring us to income before taxes. And then although we have some unusual items in 2004 that will likely be broken out in separate items for the costs related to the merger undertakings and the loss on repurchase of the surplus notes, that will get us down to a pretax number.

On medical membership categories will also be reported slightly different from practices for either companies. We will be breaking out medical membership first by customer segment. You'll get data on our large group which also includes the federal employees plan. You'll get separate numbers for our individual and small group operation, which includes all individuals under age 65 business, and our small groups where we are selling to employers with generally 50 or fewer employees.

We will break out national accounts. National accounts will now include those employers with over 5,000 eligible lives with employees in multiple states and our Blue Card host members will be reported under national accounts. We will also break out senior, which includes both Medicare Advantage and Medicare Supplement business. And, finally, we will break out our state sponsor programs which includes Medicaid or Medi-Cal in California, our state children's health insurance program and other similar low income programs run by states.

Our membership totals will also be broken out by region so you will have available numbers for Central, the West, the Southeast, the Northeast and Wisconsin. And our medical membership will finally be broken out by funding source. We will give data on fully insured and self-funded membership. We will continue to report specialty membership detailed by line of business, but we will also add to that because I think it is becoming more industry practice for our PBM. We will give you data on our actual number of scripts now filled.

We obviously have and anybody who's followed us seeing that there are some reclassifications that you will find from historical numbers on the income statement and balance sheet that is common in any merger. We want to make sure we have exactly consistent reporting between the two previous companies.

I will not go through the detail of every one of those adjustments on today's call. Almost all of the major reclassifications you have seen in our prior SEC filings and pro formas in the S-4 and other filings. So these reclassifications will not impact the bottom line. It just affects in some cases the geography of where some revenues or expenses are.

We will not, going forward, be providing a lot of separate information on Legacy Anthem or legacy WellPoint, Health Networks. Going forward, as you can tell by these regions, we are combining this Company and really just not managing anything in that format going forward.

We will have some adjustment for accounting for membership that has also been modified. First, to get a consistent approach between the two companies for estimating Blue Card host membership. Second, to eliminate some overlap host members, for example, a member that legacy WellPoint might have had as a home member but was a host member for Anthem. We don't want to double account and we will eliminate that. These changes will result in a net reduction of approximately 900,000 members from the mathematical addition of legacy Anthem and legacy Wellpoint Health Networks. We will give you a reclassified historical membership information with our fourth quarter earnings so you will have history on this new methodology.

I really do believe that these changes toward disclosure continue to demonstrate our desire to provide visibility to the investment community for analyzing our results and I think they will be most helpful.

I would now like to turn to our expectations for 2004. I will caveat all of this by the fact that we have not yet completed all of our year-end accounting procedures and, therefore, there are some opportunities for some of these numbers to change and they are not the final numbers.

For 2004, the fourth quarter, we now expect earnings per share about 90 cents per diluted share. That is, as we mentioned in our press release, slightly lower than our previously provided guidance of a range of 95 cents to $1.00, due to the fact that we were actually more successful than we expected in the repurchase of our surplus notes.

The repurchasing of the surplus notes in December of 2004 resulted in a pretax loss of approximately 146 million or 47 cents per share in the fourth quarter. That compared to our expectation of a loss of only 125 million when we expected to get fewer notes bought back.

This is a good transaction for WellPoint going forward. It does replace those surplus notes with much lower coupon notes and will actually lower our interest expense over the next 23 years.

As previously anticipated, in the fourth quarter, we did take $61.5 million of undertakings for California and Georgia that were expensed, resulting in an after-tax cost of 31 cents per share in the quarter. After consideration of these items, our results are consistent with Wall Street expectations. For the full year 2004, we expect GAAP earnings per share of $6.07 per diluted share. This estimate includes a loss of 61 cents per diluted share for that surplus note repurchase, expenses of 39 cents per share for the merger-related undertakings, the tax benefit of 29 cents per diluted share associated with the change in the Indiana laws governing the state's high risk health insurance pool which you remember was booked by old Anthem in the first quarter of 2004, and net realized investment gains of 16 cents per diluted share.

Full year 2004 per share impacts on the surplus note repurchase charge and merger-related undertakings are different than for the fourth quarter of 2004, due to the differences in weighted shares outstanding. I hope that doesn't confuse too many people but for example the $146 million loss on their surplus note repurchases represents only 47 cents per share in the fourth quarter but 61 cents per share -- that same 146 million -- for the year. Because, obviously, the fourth quarter had a lot more average shares outstanding than what the annual full fiscal year has.

In driving our earnings per share guidance for 2004, we do project underlying details as follows. In our operating revenues we expect 2004 premium revenues of about $18.8 billion, and administrative fees of $1.4 billion, and other revenues of about $249 million. Total revenues should approach about $20.8 billion including about 305 million of investment income.

Membership at the end of the year is expected to be approximately 27.6 million members and this includes that net reduction of approximately 900,000 Blue Card members due to the overlapping membership and consistency adjustments for estimating Blue Card lives. Our benefit expense ratio should be approximately 82.2 percent and we do believe that we will finish the year with a 2004 cost of care trend at just less than 10 percent, which is consistent

with what our expectations for both companies. This is based on a combined legacy -- Anthem and legacy WellPoint Health network pro forma basis for all periods to get you sort of an apples to apples comparison.

As noted earlier, we will now report the SG&A ratio excluding cost of drugs sold through our mail order pharmacy. Our SG&A ratio is expected to improve from 18.8 percent on a comparable basis in 2003 -- that is, taking the cost of drugs to 16.6 percent in 2004. The estimated cost of drugs sold in 2004 will be approximately $102 million.

In 2004 we show continued improvement in our SG&A ratio because we were successful in controlling our spending, increasing the use of technology, and lowering costs through that methodology and leveraging our administrative expenses over the larger membership base. Total operating expenses should total almost $3.5 billion.

Amortization of intangibles in 2004 should be about 61 million and interest expense will be about 146 million. In 2004, we will have the unusual items that include the $61.5 million in Georgia and California undertakings that are not tax-deductible, as well as $146 million pretax loss for the repurchase of the surplus notes. All of these items, when you add them up, should result in earnings per share of about $6.07 per diluted share in 2004.

We expect diluted shares to be roughly 201 million diluted shares for the fourth quarter which results in a full year weighted average diluted shares of 157.3 million. Our cash flow from operations is expected to be $1.2 billion which includes only one month of Legacy WellPoint Health Network's operation.

Let me now turn to our guidance for 2005. We continue to expect 2005 earnings per share to be around $7.75 per share at the high end of our prior range, or 28 percent above 2004 on a GAAP basis. We continue to believe that our long-term earning per share target continues to be at least 15 percent growth annually. The accretion from the WellPoint transaction is expected to be about 15 cents per share, if you actually took the former Anthem and increased it by just 15 percent. So we will get about 15 cents additional growth beyond 15 percent and that is net of approximately $107 million, or about 22 cents per share, of integration-related items such as stay bonuses, nonvested stock options and restricted stock for new executive leadership team.

We anticipate for 2005 enrollment growth of about 4 percent. We expect to finish 2005 with approximately 28.7 million medical members, a growth of more than 1.1 million members during the year. That will be broken out into about a 6.9 percent increase in self-funded members and about a 1.4 percent increase in fully insured members.

Our self-funded membership is expected to reach approximately 14 million and each region will be contributing to that membership growth. This membership growth is consistent with our long-term model that expects annual growth to continue at a pace of 3 to 5 percent per year.

We expect 2005 premium revenues of about $42.4 billion. That represents about a 10 percent increase compared to about $38.6 billion if you combined legacy Anthem and legacy WellPoint, each, for twelve months in 2004 to make it sort of an apples to apples basis. This increase in revenues is due to the higher membership and disciplined pricing.

Let me spend a moment to talk about our pricing strategy because there has been significant interest from investors about what our pricing strategy will be as a combined company. As I have said at other meetings, legacy Anthem and legacy WellPoint Health Network pricing policies were actually more similar than many have an appreciation for. In the future, we plan to continue to price our business with discipline on a PMPM basis.

Premium trend percentages will at least equal our cost trend percentages and cost trend will include both medical benefits and administrative cost. We want to make it real clear that we are not interested in underpricing our business to increase market share. We expect our administrative fee revenues to be about $2.7 billion in 2005, a 9 percent increase compared to about $2.5 billion for the combined legacy Anthem/legacy WellPoint Health Networks if you had both companies together for 12 months in 2004.

Our other revenue is expected to reach about $600 million and that is primarily sales in our mail order pharmacy. Net investment income is expected to approach $535 million in 2005. This is an increase over 2004 and reflects the lost investment income due to the cash used in the WellPoint Health Networks' transaction. Note that our guidance assumes no realized investment gains or losses in 2005.

Our benefit expense ratio should decline to around 81.8 percent for 2005 due to a full year of legacy WellPoint Health Networks operations, and we do believe that the seasonality you'll see is that the first quarter of 2005 will have the benefit ratio of about 81.4, increasing to about 82.3 by the fourth quarter of '05, reflecting the seasonality associated with meeting deductibles and more rate increases being scheduled for earlier in the year.

Our cost of care trend we believe in 2005 should decline by about 100 basis points, driven by new benefit plan designs, geographic mix of sales and further success in our care management programs. So for 2004, where we saw pricing cost trend just less than 10 percent, we think we'll be just less than 9 percent in 2005.

Our SG&A ratio on the new basis should continue with meaningful decline from 16.6 percent in 2004 to 15.1 percent in 2005. This will represent an approximately 150 basis point reduction with the first quarter of '05 at about 15.6 percent decline into 14.5 by the fourth quarter of 2005. Selling expenses will comprise about 3.3

percent of operating revenues and this SG&A ratio includes $150 million of synergies from our merger -- broken down, as we have previously reported, $25 million in the first quarter, 35 million in the second quarter, 40 million in the third quarter, and 50 million in the fourth quarter.

For 2005, we expect the cost of drugs sold should reach about $349 million spread relatively evenly throughout our four quarters. Amortization of intangible assets is projected to be around $253 million in 2005, consistent with what we have had in prior SEC filings. We anticipate interest expense to be about $240 million. This amount will be higher than last year due to the merger financing cost, but partially offset by lower interest rates obtained through repurchasing the surplus notes. We recently placed $1.6 billion of senior unsecured notes in four tranches with a weighted average interest rate of approximately 4.9 percent.

Income before taxes is therefore expected to be about $3.8 billion in 2005 and we expect an effective tax rate of about 37.2 percent for 2005 reflecting the blended rate from the legacy Anthem and Legacy WellPoint Health Network companies.

We have assumed approximately 308 million fully diluted shares outstanding in 2005. That includes 5.2 million shares issued on November 15, 2004, in settlement of the Anthem equity security units, and about 162 million diluted shares from the WellPoint Health Network's transaction. We have included only about $400 million of share repurchases in this guidance, but we continue to look and intend to be opportunistic in terms of share repurchases.

In terms of EPS using these assumptions, you should get to a 2005 earnings per share of approximately $7.75 per diluted share and we believe that the quarterly earnings breakout should be approximately $1.82 in the first quarter, $1.90 in the second quarter, $1.97 in the third quarter and $2.05 in the fourth quarter. You'll see that the quarter over quarter increase is actually increased throughout the year, primarily as we achieved the synergy expectations that we laid out.

I do want to point out that we have not included the impact of expensing stock options in this guidance. FAS 123, the revision is a very extensive document that was recently issued. We are currently analyzing that pronouncement. We certainly will fully comply with those provisions and we will provide additional guidance on what that impact will be, once they can be established.

Although our GAAP net income is expected to be almost $2.4 billion in 2005, we do expect cash flow from operations to exceed net income and be approximately $3 billion in 2005. As both companies stated prior, our priorities for that cash flow would be investing in our existing operations to support either further growth in products or opportunistic acquisitions, potential repayment of debt, or share repurchase.

Before I open the call up for questions, I wanted to provide you an update on WellPoint's implementation of Section 404 of Sarbanes-Oxley Act. As many of you know, 404 requires public companies to include in their Form 10-K a report by management on the effectiveness of the company's internal controls and an opinion from the company's auditor on management's assessment and the effectiveness of the internal controls over financial reporting.

We believe we are right on schedule for our 404 compliance activities but that work will continue through February 2005 and will result in management and auditor's reports in our 2004 annual report on Form 10-K. As permitted by the SEC, we will not include an assessment of the internal controls of WellPoint Health Networks Inc., our external auditors reviewed and concur with this conclusion primarily due to the time constraints involved in doing such testing, given the merger closing on November 30th, 2004.

Although our assessment will exclude WellPoint Health Networks, we are not aware of any internal control issues there and don't think there will be any considered material weaknesses in 2004. So we think we are in very good shape in terms of the 404 certifications.

Finally, if you have missed any of the specific items I've provided, you can certainly reach Tami Durle in our investor relations department. Also we will have a replay of this call available through January 21st by calling 1-800-475-6701. The access code for the replay is 762260.

With that, I look forward to try to answer any questions that you all may have. So, Operator, you can open up for questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Charles Boorady, Smith Barney.

Charles Boorady

Thanks, good morning. First question. There are a few items in 2005 that are somewhat merger-related that we are not excluding and you mentioned a couple of them. I'm wondering could you just total up first, Dave, what '05 would look like if we were to exclude items that are not going to show up in subsequent years?

Dave Colby

Yes, I can do that. The major numbers are about 107 million or 22 cents per share of what I would call integration items. They are legitimate expenses. These are things like stay bonuses where we clearly are transferring some functions from one place to another or consolidating them. But you need to get people to stay and encourage them as you go through that transition. We also have some issues, for example, WellPoint -- old WellPoint's compensation package was fairly conservative and that somebody like myself who even though it was sort of a change of control, who doesn't get terminated, my stock options don't vest. Therefore when Anthem replaced my stock options with new WellPoint Inc. stock options that were in the money, that is an expense item under GAAP and will have to be amortized over the period those unvested options have to vest.

So we have a number of things like that. It may also include some severance -- severance costs associated with former WellPoint employees will be in essence part of purchase pricing is included in the about $300 million of transaction costs we estimated. Any severance associated with former Legacy Anthem executives would get expensed.

So if you add them all up, it's about 22 cents. I can't say, Charles, that all that disappears at the end of 2005. Some of those things may continue on through a little bit of 2006.

Charles Boorady

It sort of built to '06 from '05. I wouldn't take out the entire 22 cents.

Dave Colby

I wouldn't take out the entire 22 and as we get more into the integration as things move, we will have better information as we go throughout the year what we will be able to actually take out in 2006.

Charles Boorady

And the 15 percent a year is still long-term guidance?

Dave Colby

The long-term guidance absent the impact of this transaction, which we said while over the next couple of years while we are getting these synergies would be single digit accretive, is 15 percent.

Charles Boorady

So as I think about '06 I think about 15 percent growth from '05, plus whatever part of the 22 cents doesn't recur, plus the additional synergy. And is that additional synergy number still what you had previously said it would be in the 250 range for '06?

David Colby

Yes that is what we're looking at.

Charles Boorady

Last question on Medicare. In light of part B starting up. 1/1/06. Are you going to be breaking up MediGap vs. Medicare advantage lives that you have or are you going to continue to lump those into one Senior line item.

Dave Colby

We are going to continue to lump them into one line item. I think we certainly want to try to make disclosures useful. If in 2006 we start seeing much more growth and it becomes more material, that is something that we would consider.

Charles Boorady

Is the added PBM disclosure coincident with any changes in how that PBM is organized within your Company? Is it running more as a stand-alone business segment and moving toward a business segment?

Dave Colby

No I think -- no, we are trying to, again, give people I think a better feel for the relative size and what we are doing in that PBM. And I think as we've looked at sort of best practices as we've done this merger, it looks like many of the PBM membership really isn't as important as script volume that runs through it. And so we think that that is probably a measure that a lot of the analysts have asked us for and we want to try to give people a better feel.

Charles Boorady

Thanks.

Operator

Doug Simpson, Merrill Lynch.

Doug Simpson

Just a couple of questions on the cash flow, Dave. You ran through some of those numbers. I just wanted to make sure that I got them right. I think you were saying it was $1.2 billion for '04 and then $3 billion for '05?

Dave Colby

Yes and remember the '04 has 12 months of Legacy Anthem and one month of Legacy WellPoint in it. I think the prior Legacy Anthem guidance was about $1.1 billion, adding an extra month of WellPoint for December is a little bit over $100 million. So that is where you get to the $1.2 billion. Obviously for legacy WellPoint, our guidance was close to $1.6 billion if you put it for a 12-month period of time. So when you add both those operations together for a full 12 months each and the growth that we are expecting, we think the cash flow from operations will approach $3 billion.

Doug Simpson

And then your CapEx assumptions?

Dave Colby

CapEx, if you look at that historically, the number has been between $200 and $250 million and that is pretty much where I think we will wind up.

Doug Simpson

About the same level?

Dave Colby

Yes. We make get a little bit of synergy. Maybe a little bit -- you know.

Doug Simpson

So that would be something like$2.7 or $2.8 billion of free cash next year? I think you said in your comments that you are assuming about $400 million of buybacks.

Dave Colby

Right.

Doug Simpson

So it just begs the question what are you going to do the remaining cash flow?

Dave Colby

I think that we've had only one meeting of the new WellPoint Inc. board and a lot of that dealt with organizational issues, but obviously in terms of the whole capital plan for the new WellPoint Inc. going forward, one of the very important considerations that this new board will have to do is, given that very strong cash flow, what are the appropriate uses for it?

Doug Simpson

Is that just in terms of specific timing? Is there a date or time we should keep in mind?

Dave Colby

It is hard for me to commit to a board that has only had one meeting together. I think it is certainly a priority for them but I also don't think you're going to see them decide, in one board meeting, something as important as the overall capital structure of the Company. So I hate to commit to a time, but it is on their list and their agenda to look at.

Doug Simpson

Maybe just one other question on the guidance. Could you just quantify the impact of the surplus notes buy in and interest expense relative to what you were expecting? It sounds like you guys got a little bit more buy in on that than you would expect. What was the delta there?

Dave Colby

Let's see I think I can -- obviously we took out 9 percent coupon paper and replaced it with just less than 5 percent coupon paper. But in terms of interest expense going forward, I guess on that amount it is close to almost $11 million a year.

Operator

William McKeever. UBS.

William McKeever

I had a question on the reduction of the cost trend from 10 percent in '04 to 9 percent in '05. Is that an assumption that the benefit changes are going to affect changes in consumption? Or maybe you could give me a little more color on that change in trend?

Dave Colby

It is an overall trend that has many factors in it. It has the impact of plan design changes. It has the impact of new contracting that we are doing. It has the impact of what we think pharmaceutical trends will be, given the recent news in that area, and it includes some of our medical management capabilities. So it has many factors that come up with that overall trend and what are we going to see on a PMPM increase.

William McKeever

Okay, thanks for that. Then on the reduction in the medical loss ratio in '05 over '04. Is this -- just to make sure that I understand it, is that a mix shift that is having an effect on that?

Dave Colby

Yes. It is. It brings it down but that is primarily because you're going to add 11 months' worth of the Legacy WellPoint Health Networks business. And if you remember Legacy WellPoint Health Networks ran a slightly lower medical care ratio than Legacy Anthem. That brings down. If you wanted to try to do more of an apples to apples comparison, what you would see is the ratio actually going up slightly. But that would be primarily due to mix and where we are expecting some of the geographic membership increases coming from.

William McKeever

My last question is on the 250 million in synergies. Is that -- that's all cost right? So the revenues you'll get from going into the national market, and some of the new products that you can launch in small groups and for individuals? That is something that is on the upside so to speak?

Dave Colby

That is correct. I mean in the $250 million there is, I won't say there are no revenue synergies because we do have some, but over 90 percent are expense synergies. You're right. The hard thing is, we have said all along for this merger to be very -- really successful, hopefully it helps us better compete in a marketplace and sell more product. But trying to quantify that and sharpen a pencil, when you have two companies that have historically grown quite well anyway is a tough one to point out. I think the guidance that we give, gave here of 4 percent membership increase in what is a competitive market, I think is strong and I think it is very achievable.

Operator

John Rex. Bear Stearns.

John Rex

Continuing on the cost trim comment. I wonder if you could help us in saying that where you exited '04 in terms of a run rate cost trend? I understand the kind of just under 10 percent would be a rolling 12 month trend. How you view what you exited the year at?

Dave Colby

I try not to get into specific point times because you get more fluctuation there. All I will say is that, really, both companies were remarkably accurate in 2004 in terms of their expected trend and the consistency of that improvement. Which is different than if you go back to 2003 where I think I've also said both companies in 2003 were surprised by the magnitude of reduction in the rate of increase of trend.

So I think, obviously, we're not predicting or estimating this approximate 100 basis points of improvement without some trend going that way. If that is what you're trying to get at. It is not something that we feel like we are stepping out on a limb, betting on the come or something to change dramatically.

John Rex

Yes, I guess I'm just trying to say have you seen, you have essentially seen most of that already? Is that a fair characterization?

Dave Colby

We see the trends leading that way. If we saw most of it already, then we would be underestimating it.

John Rex

Right. Okay. Is it fair to say, though, that for the business that renewed in January essentially pricing at existing trends that that was priced closer at just under 10 percent or what should we think about premium yield, I guess, net premium yield?

Dave Colby

I think you'll see again when you look at the care ratio even if you did put in all 12 months of WellPoint, you are going to see premium trends matching your cost rates. When we set prices we are looking at what we expect the trend will be out there for a 12-month period of time. And I can tell you throughout 2004 we haven't seen significant revisions to what our expectations were. We feel very good with our ability to project forward. So we also say - of course as I will always point out, that one of the advantages of the WellPoint Inc. that I've talked about at many investor conferences is the flexibility that we have throughout the year. With only a little bit over 30 percent of our business pricing in January, if this trend is not slightly less than 9 percent, and becomes a little bit higher, we adjust our rates accordingly. If we see a little bit better trend we also adjust our rates accordingly and we can be very responsive to the market, but also very disciplined to try to achieve the profitability levels that we think are appropriate.

John Rex

Would I be cutting it too fine, though, to suggest with the January '05 business and since you are running a little bit higher trend, it's been coming down but referring to a higher trend that was pricing. If you are looking for 9 percent yield for full year '05, the January '05 would have been priced a bit of the higher end of that range?

Dave Colby

Yes I think you are splitting hairs because I don't really want to get into exactly what we have in our planning guidance for what the January rate increases or what the July for example rate increases will be, because that has some very forward looking statements regarding what we think trend will be in 2006.

John Rex

Back on the quarterly guidance impact on that. When you think about the deal-related items rolling through in '05, the stay pay and such. Is there a bias of that expense to the first half vs. the second half?

Dave Colby

Obviously there may be a little bit of bias. Because, certainly, there may be some severance a little bit early on. Some of the stay bonuses will be throughout because we want people staying till 2006 as we integrate things. But there will be some stay bonuses that probably will be done with by second or third quarter.

John Rex

So it wouldn't be if we were modeling spread evenly throughout the year?

Dave Colby

It is not a huge number but it is more likely to be more front end loaded than back end loaded. But it is going to be fairly consistent.

John Rex

Okay but it wouldn't be just 107 divided by 4, it would be a little weighted to earlier quarters?

David Colby

Right. That is probably the good way to model.

John Rex

Right. If they come down a little bit as we go. Okay. Thank you.

Operator

Matthew Borsch. Goldman Sachs.

Matthew Borsch

My first question is on the enrollment outlook. And I think I heard you right -- 1.1 million new members in 2005. Can you give us some sense of how that is going to break down in a couple of different ways? If you look at it, Legacy Anthem vs. Legacy WellPoint on the one hand, and then on the other hand, first quarter vs. the balance of the year?

Dave Colby

I think you can say I really do want to stay away from, and we are internally getting very sensitive to getting away from Legacy Anthem and Legacy WellPoint, as much as possible as you can tell by our regions. There are very few regions, with the exception of really the Northeast, that don't have a very strong combination of the two. And we would like to see the two company Legacy disappear ASAP. We are one company going forward, and we are going to be one integrated company.

So I really don't want to give much difference there. We will be reporting out and you'll see by each of the regions, membership in the West vs. the Northeast, because I think that that is what people want to see. In terms of the seasonality of the addition of those 1.1 million members, what I would say is, it is very consistent if you go back and take the growth that both Legacy Anthem and Legacy WellPoint had each quarter. It is almost identical. So I think you can do that math fairly easily.

Matthew Borsch

Is there a reason are you looking to fairly slower growth in the ISG segment just inferring from your differential between ASO and fully insured?

Dave Colby

I think slower growth in ISG, mainly, because if you look at our market share and individual and small group and in everyone of our regions, it's substantially higher than our market share in large group and particularly with the national accounts and multistate business, that we started doing much more penetration as the advantages and benefits of Blue Card have been accepted by the marketplace.

So I think it is more where the opportunities are, but of course we're still even a 1.4 percent increase in fully insured members. Given the number of fully insured members that we have, it's still a big number in terms of members.

Matthew Borsch

Right. Right. On a different topic, just on your pricing strategy as you described it and so I understand. You are pricing at a rate of increase in both medical and operating costs blended together as I understood it.

Dave Colby

Actually slightly ahead because if you actually look we are expecting that, compared to what will be reported in 2004, we had a pretax margin of about 6.9 percent. We are expecting it to go up to about a little bit over 8 percent. So we are clearly pricing ahead of trend. Now some of the synergies that we realized that were dropped into the bottom line to the benefit of our shareholders, but we are clearly seeing our margins on a PMPM and percent basis improve.

Matthew Borsch

Last question, Dave. The integration milestones that lie ahead and I know you completed a lot of work already. But can you just give us some idea of what your major milestones are for 2005 as you look to the year?

Dave Colby

Well we have, we've had 26, 27 teams, integration teams working. We have over 300 major milestones. Each one of those milestones have GANT charts that have tens and sometimes hundreds of steps. So there are huge steps that we are working on and I think we are -- have our hands around it. I think we have again if you look at the management team that we have assembled and put together, I think we are going to make this work and I think we are going to hit the numbers that we have laid out today. But every region is slightly different.

Obviously, in our U.S. specialty products we have a little bit more combinations to do because there is more overlap there than in some of our health insurance regions. We have a lot of opportunities that we're going after on the system side as we, again, we implement our systems strategy, which is not a big bang conversion. There's no big risk there. I think it is a low-risk approach but one that gets us to enterprisewide applications that allow us to achieve economies of scale.

Operator

Josh Raskin, Lehman Brothers.

Josh Raskin

On the membership breakdown, you said you are going to break out by segment and by geography within the regions. You are not going to tell us, for example within the Central region, what large group was. You are going to break them out separately by segment and geography?

Dave Colby

Yes exactly. We looked at it. I mean it just lines up with our press releases, and filings get to be too thick. And I think what people really care about and what is appropriate to look at is how are we

doing in each customer segment? How are regions doing? And what is happening in terms of fully insured vs. self-funded because I know a lot of you base your models on that number.

Josh Raskin

That's helpful. I don't want to beat the dead horse, the pricing strategy you've talked about, but just mathematically can you help us? If you are expecting a 9 percent cost trend does that mean you are raising your prices 9 percent or are you looking to maintain a dollar gross margin PMPM?

Dave Colby

We have always and I think even Legacy WellPoint we have always priced and we have always looked at what is the profitably PMPM? Historically we have not been able to reduce administrative expenses as much as Legacy Anthem. What wound up in terms of price increases is much closer to medical benefit expense trends. But as you are aware, remember when we've talked about it a lot when we do a lot of these employer elect type plans where people have a number of different options, of different price plans, we always try to price plans at least to a particular customer segment to make about the same dollar amount per member per month. Because we are concerned about and we don't want be adverse selected against and have mix changes.

So I think that, again, you're going to see with the improvement in the pretax margin that the mathematics of the premium increases, if you look at our premium revenue divided by insured members, you are going to be close to just a little bit under 9 percent premium increases and you're going to see just under 9 percent benefit. It won't necessarily be an exact match but I think, as I said, you'll see the medical care ratio go up if you were to pro forma, sort of 12 months of WellPoint and Anthem together in 2004 vs. 2005.

But most of that is really more associated with where we expect the growth, the mix changes.

Josh Raskin

Got it, that's clear. You mentioned the SG&A, David, just looking for 150 basis points I guess it's as close to apples to apples as we can get for next year. Not even include some of the additional costs you talked about around the merger. Is that improvement? Assuming that that is sustainable and the synergies are on track etc. in '06 and beyond, is that an opportunity for you to adjust your pricing to maintain that same pretax margin PMPM or do you continually look just at pricing vs. cost of the gross margin line?

Dave Colby

We look at it from an overall line and, obviously, look at it in relation to the market and what we can do. But we have, we want to achieve our 15 percent growth target. That is going to require over time certain PMPM profitability levels. I think we have had, both companies have actually had a history of achieving.

Josh Raskin

Last question. 150 basis point improvement. How much of that is related to merger synergies and how much of that is related to the benefits of technology and other corporate improvements?

Dave Colby

It is hard to get into those exact percentages. There is some of the improvement, I would say it is maybe 40, 50 basis points of the improvement is just having a full 12 months of old WellPoint Health Networks, which has had a slightly lower SG&A ratio. So the true improvement, improvement is closer to probably 100, 110 basis points if you want to look at it on an apples to apples basis.

Josh Raskin

And if we backed out the synergy numbers, do you think we would get close to what the true apples to apples improvement would be?

Dave Colby

Yes. I would look at more than net synergies toward the additional merger-related cost, too.

Josh Raskin

Right. Thank you very much.

Operator

Patrick Hojlo from Credit Suisse First Boston.

Patrick Hojlo

Could you just give a little more detail on the 10 percent of those synergies that are revenue synergies? Where exactly you're going to see them this year?

Dave Colby

I think most of those were in the specialty products. Where we actually thought we can get a little bit more penetration because of size.

Patrick Hojlo

On the PBM side, behavioral side, all of the above?

Dave Colby

All of the above. But the PBM, I think, is the biggest beneficiary.

Patrick Hojlo

Is that one of the reasons why you are breaking out the PBM drug cost, that is to say you are expecting some more growth there? It is getting big enough.

Dave Colby

Yes, I mean I won't say it is because of that, but it is -- because it is when you combine these two PBMs, it is huge. I mean it is in the Top Four and what we're trying to do is trying to help some of the investors who also follow pretty close with the PBM industry to give them numbers that they are used to seeing in that industry.

Patrick Hojlo

Fair enough and then Medicare Part D, to benefit, I assume you're not going to give any detail color there but I would imagine you're expecting maybe an acceleration of PBM business in '06 because of the Medicare drug benefit.

David Colby

Yes. We think we could be, could wind up being a major player in that business because, one, we have a very cost-effective PBM. Two, we have a lot of experience managing drug benefits for seniors through some of our Medicare supplement plans. Three, the Blue Cross Blue Shield brand is a brand that's very popular among senior citizens. So I think we have a great opportunity there. As you know both companies have been somewhat cautious and cautiously optimistic on what the opportunities will be and we will have to see exactly what all the rules are.

But it does look like a good business opportunity for us albeit in 2006, and not really related to this guidance call.

Patrick Hojlo

Does it look even better to you because you are in some markets where you should probably should've gotten or could surmise from your major competitors won't want to, or won't be able to compete right away, away from the East Coast or West Coast where others have big marketshares. You have great market share, great brand. That's going to be a big leg up for you on the Medicare side isn't it?

Dave Colby

Yes.

Patrick Hojlo

On the Sarbanes-Oxley even though it is a minor point, had you done testing at WellPoint Health Networks already?

Dave Colby

Obviously had the merger not been able to close on November 30th, we were in very good position, had completed all of our documentation and internal testing and I think we are in very good shape. Obviously, with the merger on November 30th, it just to get Ernst & Young up to speed in one month is not practical. That is why the SEC exempts out major transactions that occur late in the year.

Patrick Hojlo

One last thing. Share repurchase you kept guiding to, a little over 3 million shares assuming the price stays constant. What was -- what did you guys, I'm impressed with the number, I am just being a little lazy. Did you give some guidance for share repurchases for '04 or is this something that you are actually giving guidance?

Dave Colby

Actually it is a little bit different. I mean the Legacy WellPoint, basically, gave guidance on share repurchases because we were -- historically, we were always planning to try to do repurchase at least equal to benefit plan dilution and Legacy Anthem always did their plan with no repurchases. So this is the combined of the two.

Patrick Hojlo

And this amount will be roughly you think equivalent to what the benefit plan dilution would be?

Dave Colby

I think it could be pretty close. I mean it is also, again, both companies have been very opportunistic because of the volatility in

our industry that we have been able to realize benefits for our shareholders as the stocks periodically go on sale and as we discussed earlier we'd have significant cash flow. We'd have, obviously, authorization right now for about $700 million worth of buybacks. So it is a number that is there and that is about all I can say.

Patrick Hojlo

And then one more on your program, hate me for asking this. But I will beat the dead horse and ask one more question.

Dave Colby

But you are good at that.

Patrick Hojlo

Pricing strategy. Just curious. I understand what you're saying, I understand the math. I am just curious if there was anything you did after you decided to change, now that you are in charge of the old Anthem operations, in terms of pricing strategy?

Dave Colby

Well I am not smart enough to do pricing strategy. I leave that to some very qualified actuaries and underwriters who know exactly what they're doing. But I think you, again, like I said on the opening remarks, I think some people have made a lot more -- added differences than what really exists. Both are disciplined and the bottom line is, you establish a certain profit level that you would like to achieve based on certain actuarial assumptions when you price it and the question is, did you hit that. And both companies have had a track record meeting the expectations. That means, one, doing enough good actuarial analysis to understand potential in the trends, and estimate future trends accurately and, two, to be disciplined enough to walk away from business that doesn't make sense and aggressively go after that that does.

Patrick Hojlo

All right but I think that your explanation about differences in G&A trends and how that affects the math is important too. So I really appreciate that and it makes a lot of sense.

Operator

Scott Fidel, J.P. Morgan.

Scott Fidel

First question. You mentioned potential impact of plant design changes on '05. Could you just quantify expectations for benefit buydowns in '05 as compared to '04?

Dave Colby

Yes right now I don't think we're going to see much in terms of changes now. I say that and I will caveat and reiterate Tami's earlier comments that forward looking statements are subject to change and this has probably been the one area that I have been the worst at in terms of being able to predict. Because I had always thought that given rising costs that you would see more buydowns. I think in 2004, on a combined basis, we wound up with just about maybe 200 basis points of buydowns when I actually probably thought we would have more than that last year. And right now the expectations given the fact that trends are mitigated a little bit is that will stay about the same.

Scott Fidel

Secondly you said you mentioned some of the recent factors in Rx assuming part of that is just some of the dynamics with the drop in COX-2 scripts. At this point do you see the potential for some further moderation in our pharmacy trend?

Dave Colby

Yes I think that we try not to get into guidance and predictions. On each call, I obviously go through what our current trend is on pharmaceutical. When I start giving guidance the actuaries prefer I stay with what our effective overall rate is. But you are right. We have considered things like the COX-2's and you do have issues there that you have the factor in. It is not just what is the reduction in the pharmacy costs but if there really is much higher incidence of heart attack and stroke. Those are costs that we are paying for, too.

Scott Fidel

Right and then just was interested that the companies decided to keep Wisconsin as a discrete company and not fold that into the Central region. Could you just talk about some of the thinking behind that?

Dave Colby

Wisconsin?

Scott Fidel

Yes.

Dave Colby

It is pretty easy. Being right now we are actively into the integration and a number of activities going on there, and I think from Larry Glasscock's perception, that is an important point. We have a very senior person, Becky Kapustay, on the ground there and I think he wants to make sure that that is going smoothly and works. And I think it doesn't take a genius to figure out that probably long-term it will wind up within a region.

Scott Fidel

Last question, just to help with them modeling. Could you give us what you expect total assets to be at the end of '04?

Dave Colby

I don't think, I don't have -- let me pull out because it would be not much different than the pro formas for the bond deal.

Scott Fidel

Just for the combined two companies?

Dave Colby

Yes that we filed with the bond deal and total -- about $38.9, $39 billion.

Operator

Norman Fidel, Alliance Capital.

Norman Fidel

I am a bit confused on the investment income. I just want to be sure. The 16 cents in gain, I know historically Anthem would sort of leave that separate and we would go with a pro forma number, at least in the financial community. Whereas with WellPoint these investment gains were included in the quote pro forma. Going forward now, you are excluding all investment gains from the projections that you are getting?

Dave Colby

Yes, I mean I think, Norman, if you remember Legacy WellPoint, all of our guidance excluded gains and losses. But we always put the gains and losses in the investment income line item. And during our quarterly calls we would always break it out. So going forward format-wise, we will break out in two line items, the investment income and than any gains or losses so that you have it right in front of you easier. I mean, there's no real difference there.

Norman Fidel

So the $6.62 or so for '04 which is before the four sort of special items including the investment gains, that $6.62 would be on the same basis as the $7.75 projected?

Dave Colby

Yes.

Norman Fidel

All right. No investment gains in those numbers?

Dave Colby

That is correct.

Operator

Eric Veiel, Wachovia.

Eric Veiel

I will be real quick. The other revenue line, besides the mail order spend, what else is going to be in that?

Dave Colby

There might be some other miscellaneous some joint venture revenues for things like our health core operations or so. It really is pretty de minimus compared to the major number will be mail order.

Eric Veiel

So 95 percent or better would be the mail-order volume?

Dave Colby

Surely 90 percent or better.

Eric Veiel

Just one question as we think about the discussions we are going to have going forward about administrative expense ratios. If mail order continues to grow fast for you guys, as it has for the independent PBMs, that number is going to be in the equation but the mail order order expense won't be so it could sort of artificially deflate your administrative expense rates?

David Colby

No because what will happen is -- it is sort of like the health insurance side. What we're going to have in is all the administrative costs of running the mail order pharmacy are going to be in our admin costs. We are just pulling out cost of drugs just like we pulled out health benefit, medical benefit cost when we look at the SG&A in the health insurance business. So I think it is a reasonable metric.

Eric Veiel

That's it, thank you.

Operator

Christine Arnold. Morgan Stanley.

Christine Arnold

My question is really to cost trends. You have a 9 percent cost trend projection for '05. How much of that is mix and how much of that is a deceleration in kind of the same store trend?

Dave Colby

I'm not sure that, I mean that's a hard one to answer. It gets into a lot of different factors as I said. The trend of just under 9 percent for 2005 has many factors from plan designs to what is happening with underlying, what is happening with what we think is contracting. Some of our medical management programs that we're implementing on imaging, disease management, so and to try to quantify what every one of those components are I just don't have them in front of me.

Christine Arnold

Could you talk about what you expect roughly speaking in general terms, hospital pricing and utilization to date year-over-year? Final question is are you going to disclose each quarter the onetime 22 cent components so we can exclude it or should we build that in because we won't know what it is every quarter?

Dave Colby

We can try to get as much as possible I mean I -- I think, under GAAP, it is a legitimate expense. I like to know it is what it is, I don't want to get into a lot of monkeying with numbers. They are what they are and we need to hit them and I'm not going to try to say that those are not real expenses, because they are real expenses. Cash is going out the door for those and we have got to eliminate those just like anything else, but we will all as we -- both companies have had a history of, we will try to do the best we can in terms of quantifying and updating where we stand with the synergies and any impact of the merger.

Christine Arnold

And the hospital trends?

Dave Colby

Again, I've never really talked too much about hospital trends on a going forward basis.

Christine Arnold

Just general macro.

Dave Colby

General macro, I think you have seen the history being not much change in those trends. So if what you're asking for is something going to dramatically increase or dramatically reduce it, I don't think you're going to see anything dramatic.

Operator

Ed Kroll, SG Cowen.

Ed Kroll

On the 2005 EPS guidance, moving to the higher end of the range. The previous range, I should say. Can you point to a couple of big things maybe that caused you to do that or is that just fine-tuning as far as you are concerned?

Dave Colby

I think it is fine-tuning. I do think that as every day goes by and the managers who are now and executives who are now in place are getting more comfortable with the "new" businesses they picked up. I think certainly comfort level gets better, not worse. So I think there is a little bit of confidence there but there's nothing

big in terms of fundamental numbers. Certainly doing a little bit better on the surplus notes than we anticipated helps.

Ed Kroll

Okay, good, but certainly moving in the right direction. I mean, in guiding upward. And then I was wondering if you would tell us what you think the days of medical claims payable would look like for Q4, but more importantly during '05 what kind of a trend do you think we'll see?

Dave Colby

Yes, in terms of '04 the mathematical computation is going to be all messed up because you're going to have a balance sheet that has the combined Legacy Anthem, Legacy WellPoint but you're going to have a benefit expense in the quarter that only has one month of legacy Wellpoint so, mathematically, it is going to look really weird, but the number I think you're going to see is pretty much just almost a weighted average, if you excluded that sort of mathematical issue.

I still believe that you will continue to see improvement, I do think improvement is days in claims payable coming down as long as you are as well reserved as you have historically been and I think we're going to continue to see some opportunity. I think just like I said before, a lot of the low hanging fruit in terms of EDI, auto adjudication and other things have been achieved. And now we are into harder and harder stuff. So I don't think you'll see it come down as much as it has in the last couple of years. But our focus is still trying to see what we can do to speed up the turnaround time and get close to getting our actuaries real-time information on medical costs.

Ed Kroll

And with the admin ratio you're guiding downward during '05. Certainly we should expect to see some downward movement even if the tasks are harder to move the rate down.

Dave Colby

Well we would certainly hope that there is some downward movement. Again not as much as you've seen in the past.

Ed Kroll

Okay. Thanks a lot.

Operator

Michael Baker Raymond James.

Michael Baker

I was wondering if there were any plans to increase your direct sales forces that relate to PBM to take advantage of the increased size and if so if you can give us a sense of the amount and timing of that?

Dave Colby

That is clearly, of the 300 plus milestones that we are working on, in the integration of the two PBMs the whole distribution and sales opportunity is something that is being considered particularly as it expands its footprint for external or third party sales to new regions. So I don't actually have and I don't think a final decision has been made on exactly what we will be doing there. And I really wouldn't want to speculate.

Michael Baker

Just real quick in terms of the 300 items, is it towards the top, the middle or the bottom?

Dave Colby

Well it is right out there. I mean generating sales is something that we are focused on, but there's also issues like rationalizing underlying contracts with manufacturers which can get immediate synergies and benefits for the Company too. So I can't say it's the number one consideration.

Michael Baker

All right. Thank you. That's helpful. Appreciated.

Dave Colby

But it is certainly a priority for us.

Operator

Thank you and time for one more question on today's conference. Matthew Borsch, Goldman Sachs.

Matthew Borsch

Just a quick follow-up, Dave. Could you give us any sense of what your thinking is around what could be significant budget cuts in

California to the state sponsored programs? And any thoughts of how you're going to hedge that risk?

Dave Colby

Yes, we have done a pretty good job of managing that risk as we go forward. Again, there is the opportunity that as payment rates are cut or if there are shortfalls, most of our contracts for the Medi-Cal providers are tied to their fee schedules. So when our payments go down, what we pay out tends to go down. While that could cause some network disruption. I mean it does mitigate us from the impact of those types of cuts. On the positive side, however, you are seeing the state looking at, realizing that they do save money and get better quality through a managed care environment rather than the indemnity environment and you may see more push to open up Medi-Cal to a higher percentage being in a managed care environment. And while it is profitable business, even if it is tougher, it is a case where you can make it up in volume.

Matthew Borsch

So just one final follow-up. What are you guys assuming in terms of the enrollment in the Medi-Cal program or California state sponsored in total for '05?

Dave Colby

You'll see that. We are not going to actually break out Medi-Cal, but when you see going forward the state sponsored programs growth, you can assume that most of it is not in California.

Operator

That concludes our question and answer session for today. Mr. Colby please continue.

Dave Colby

Well I would just like to -- in closing -- say that we are being very optimistic about WellPoint's future. We think the fundamentals of this business going into 2005 remain strong and we are confident in our ability to meet that guidance and deliver on our long-term goal of 15 percent growth. I think we have the right products, the right people and the unique strengths to secure our place as a leader in the health benefits area. I would just like to close by again, once again, thanking everybody for being on the call and now thanking you for your interest in WellPoint and hope everybody has a good day. Thanks.

Operator

(OPERATOR INSTRUCTIONS REPEATED) Ladies and gentlemen as a reminder again this conference is available for replay that begins to date at 1:45 PM Eastern time through midnight on January 21st. International participants may call 320-365-3844 and the access code 762 260. This concludes your conference for today. Thank you for your participation and using AT&T Executive Teleconference.