



Conference Call Transcript

ATH - Q2 2004 Anthem, Inc. Earnings Conference Call

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**PLEASE NOTE: THIS TRANSCRIPT HAS
BEEN EDITED FOR ACCURACY**

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Anthem quarterly results conference. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. (OPERATOR INSTRUCTIONS) As a reminder, this teleconference is being recorded. I would now like to turn the conference over to the Company's management. Please go ahead.

Tami Durle - Anthem, Inc. - VP of IR

Good morning and welcome to Anthem's second-quarter 2004 earnings conference call. I'm Tami Durle, Vice President of Investor Relations and with me are Larry Glasscock, Anthem's Chairman, President and Chief Executive Officer and Mike Smith Chief Financial Officer. Larry will begin this morning's call with an overview of our second-quarter performance followed by Mike who will review our financials. Then Larry will discuss our financial outlook for the rest of 2004 including comments about the recent decision by Commissioner Garamendi to deny our application to merge with WellPoint and our plans in response to that decision.

We will be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in our press release this morning, our form 10-Q filed with the SEC on April 28 of this year and other periodic filings we have made with the SEC.

Larry Glasscock - Anthem, Inc. - Chairman & CEO

I am pleased to bring you news today of yet another outstanding quarter. While I'm sure there is significant interest in hearing more about the news from California concerning our merger, I would first like to focus on our second-quarter results and the efforts from 20,000 Anthem associates who have concentrated on running our business and have not allowed themselves to become distracted with merger-related issues.

Anthem's second-quarter performance continued with strong growth and financial momentum and was the 12th consecutive quarter since our IPO with earnings meeting or exceeding expectations. In the second quarter GAAP net income increased by 33 percent to \$1.66 per diluted share. Outstanding results for the quarter once again reflect our commitment to continuous

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improvement in innovation in the products we offer and the service we deliver to our customers.

During the quarter we realized strong revenue and earnings growth that reflect ongoing increases in membership, high retention levels and continued management of the administrative expense over a larger membership base. Operating revenue exceeded \$4.5 billion in the quarter which was another record for our Company and represented a 12 percent increase year-over-year. This is the 12th consecutive quarter we have reported record operating revenue for our Company.

Membership exceeded 12.6 million members with all 4 of our operating health segments contributing to the 8 percent growth in enrollment since June of last year. Over the past year Anthem achieved membership gains across all customer segments except for Medicare Advantage. Our extensive product portfolio and the value of the Blue Brand continue to provide us with a competitive advantage in attracting new customers and retaining our existing accounts.

National Account customers value our extensive provider networks with attractive discounts. We're able to demonstrate our discount by utilizing the ClaimsQuest tool that allows a perspective customer to compare their claims experience with savings they would have enjoyed had they utilized the Blue networks in lieu of their existing network.

Individuals who are shopping for medical benefit coverage were attracted by our new product portfolio with wider price point spreads and the Blue Cross and Blue Shield brand, the most recognized brand in the industry.

I'm also pleased to report that overall we continued to see rational pricing in our markets. While membership growth is important, we will remain disciplined in our pricing and will not sacrifice margins for market share. In addition to new sales, we are seeing in-group membership growth signaling further economic expansion as employers appear to be hiring in our geographic areas. Retention of membership remains very favorable and consistent with our historical experience in the 90 percent range. This retention also reflects our distinctive customer service and our focus on becoming even easier to do business with for our customers.

We are pleased with our enrollment and remain optimistic about our future opportunities. Our broad product portfolio remains attractive to both brokers and customers. We continue to strengthen our market positions with the launch of new products including Medicare drug discount cards launched in May and the Anthem ByDesign health savings accounts that we will launch next week. This is the newest addition to the Anthem ByDesign portfolio of consumer driven solutions.

In addition, we are finding employers very interested in our award-winning disease and medical management programs which include a broad array of services intended to maintain cost-effectiveness while facilitating improvement in the quality of care our members receive. During the quarter for example, Anthem's cardiac disease management program received a national exemplary practice award from AHIP, America's Health Insurance Plans. Anthem's tobacco cessation program also received a public health leadership award from AHIP in June of 2004.

Programs like these have received extremely high customer approval ratings and improved health of the people we serve while also optimizing the cost of care and reducing the need for hospitalization or other medical services.

As we look ahead to the next few years, we are confident that our focus on continuous improvement will result in additional membership gains as well as enhanced relationships with existing customers.

Turning now to medical cost trends and pricing. Medical cost trends were 10 percent on a rolling 12-month basis through the second quarter which was very much in line with our expectations and prior guidance. Inpatient cost trend was about 10 percent; outpatient trend, 12 percent; professional cost increased about 9 percent; and the pharmacy trend was 10.5 percent. Professional and outpatient services continue to be the biggest drivers of overall trends. Increases in both categories are almost equally split between utilization and unit cost.

In comparison to our first quarter results we saw increases in pharmacy and outpatient trend, with trends increasing from 8.5 percent to 10.5 percent and 11 percent to 12 percent, respectively. Pharmacy trend is increasing year-over-year primarily due to some favorable events in 2003 that are not expected to recur in the current year. Since the impact of these items was already reflected in 2003 costs, trends for 2004 are returning to a higher level, as was expected.

The one-time events were Claritin moving to over the counter sales, reduced utilization of hormone replacement therapies, implementation of new benefit plan design and favorable contracting at Anthem pharmacy management in 2003. Overall pharmacy trend is being driven by approximately 75 percent unit cost increases and 25 percent by utilization. Double-digit increases in cost for 2 of our largest therapeutic drug classes, antidepressants and statins for the treatment of high cholesterol impacted our results in the quarter. These 2 classes account for about 20 percent of our total drug spend.

Unlike some of our competitors we also offer rich pharmacy benefits to a higher concentration of groups with health plans bargained by organized labor and state government agencies. While the pharmacy benefits are typically higher for these

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customers, our disciplined pricing assures that we maintain our margin for these benefits.

Outpatient trend is increasing primarily due to advanced imaging services including MRI, PET scans and nuclear cardiac studies. It is also being impacted by more intensive emergency room services, orthopedic surgical procedures and heart cath. We continue to project medical cost trends in the 9.5 to 10.5 percent range for the year and are pricing our business to reflect these expectations. We expect these trends to remain relatively stable going into 2005.

Premium yields on fully insured group business were 9 percent on a rolling basis through the second quarter which is consistent with our expectations. Importantly, we continue to see margin expansion on our fully insured business and we have continued to price with discipline to cover our cost.

Now I would like to turn briefly to our operational performance. Anthem continues to deliver distinctive customer service. First call resolution of customer inquiries was approximately 90 percent for the Company during the second quarter. Approximately 70 percent of all of our claims are received electronically. We believe this is well above the industry average and enables us to make more timely and accurate claims payments. Auto adjudication rates are approaching 80 percent across the Company.

Interactive voice response or IVR is a self-service technology and we expect the adoption rate of this service option for our customers to continue to increase. These capabilities deliver value through improving the customer experience by providing easy access to claims status and related needs 24 hours a day, seven days a week while reducing the cost of handling those calls in our contact centers.

Another initiative that we are very excited about, we recently announced is the digital pen technology pilot program that uses a digital pen equipped with a miniature camera. The camera allows the health care professional to first write on a piece of paper a claim for services rendered. The form is then electronically uploaded to Anthem's systems decreasing the time to keystroke and therefore decreasing processing errors. This is just another example of our effort to employ technology to improve service while reducing cost.

Now I would like to turn it over to Mike Smith who will discuss our second-quarter financial results in more detail.

Mike Smith - Anthem, Inc. - EVP & CFO

Good morning. Anthem's second-quarter 2004 net income was \$238 million or \$1.66 per diluted share on a GAAP basis. This earnings per share growth represented a 33 percent increase year-over-year. Results in the current quarter included 1 cent per share

from net realized gains compared to a 5 cents per share net realized loss in the second quarter of 2003. Financial performance in our core operations exceeded our expectations and our fundamentals remain very strong.

Operating revenue in the quarter increased to \$4.5 billion or 12 percent compared to the second quarter of 2003. Anthem's profitability continued to improve with a consolidated pretax margin of 7.9 percent in the second quarter of 2004 compared to a 6.8 percent pretax margin in last year's second quarter. The year-over-year improvement in profitability was primarily driven by disciplined underwriting, membership gains of almost 900,000 members over the past 12 months and administrative expense control as the administrative expense ratio declined by 150 basis points from last year's second quarter.

Compared to the second quarter of 2003, each business segment reported growth in operating gain. In the Midwest, operating gain was \$129.8 million in the quarter, a 25 percent increase year-over-year. Operating revenue was \$1.9 billion in the quarter, a 16 percent increase compared to the second quarter of 2003.

Enrollment growth also remained strong, up by 424,000 members or 8 percent compared to last year's quarter, reflecting over 11 percent growth in national account membership and nearly 16 percent growth in small group business.

In the East, operating gain was \$74.7 million slightly better than last year's second quarter. Operating revenue increased by 5 percent to almost \$1.2 billion in the quarter in spite of the fourth quarter 2003 loss of the state of New Hampshire account. Even with this loss, membership has increased by 68,000 members when compared to the second quarter of 2003.

Our West segment reported a \$23.8 million operating gain in a quarter which was an 11 percent increase compared to the second quarter of 2003. In addition, operating revenue increased 10 percent year-over-year, reflecting enrollment gains of almost 200,000 members over the past 12 months.

Technology spending impacted this segment's operating results as we continue to make investments to improve our service and enhance our processes to become more efficient.

In the Southeast, second-quarter operating revenue exceeded \$1 billion. Operating gain was \$103.5 million in the quarter resulting in a 14 percent increase over the comparable period last year. Contributing to these results were enrollment gains of over 200,000 members or an 8 percent growth since June 30, 2003. The integration of the Southeast region is now essentially complete and synergies continue to track above our plans. So far in 2004, we have achieved almost \$39 million in synergy savings. We expect to capture over \$80 million of synergies this year, up from \$62 million achieved in 2003 and in excess of the \$75 million objective which had been set for 2004.

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The specialty segment reported an \$18.3 million operating gain in the second quarter of 2004 which was a 14 percent increase year-over-year. Results in this segment were driven by solid performance in our pharmacy benefit management business including a 50 percent increase in mail-order prescription volume. The improvement in operating gain was partially offset by additional investments to enhance service and functionality in the dental and behavioral health businesses. We will continue to invest to improve our operating performance and benefit further from additional scale in these operations.

Operating revenue in the specialty segment was \$275.9 million in the quarter, a 96 million or 54 percent increase compared to the second quarter of 2003. As we previously mentioned, we converted 1.6 million pharmacy benefit members from the Southeast outsourced pharmacy benefit manager to our own PBM in January 2004. This new pharmacy membership added approximately \$38 million in operating revenue in the quarter.

The operating loss in the other segment was \$15.7 million in the second quarter of 2004. The loss decreased by \$23.4 million compared to last year primarily due to lower incentive compensation expenses following the completion of our 2001 to 2003 long-term incentive measurement period.

Anthem's consolidated benefit expense ratio was 81.9 percent in the second quarter, 110 basis points higher than the ratio reported a year ago but better than our expectations. The 2003 ratio benefited by 80 basis points associated with almost \$32 million in favorable prior period reserve development. The \$32 million represented excess reserve redundancies as medical cost trends had been moderating during 2003 at rates greater than we had anticipated at that time.

Recall that last year we noted that our benefit expense ratio was below a sustainable level and that it would return to a more normal level in 2004.

The administrative expense ratio was 17.6 percent in the second quarter of 2004 an improvement of 150 basis points year-over-year and consistent with our expectations. Per member per month administrative expenses fell 4 percent compared to the prior year. We continue to be pleased with our progress in managing our administrative costs over a larger membership base.

Moving to the balance sheet, cash and investments were \$7.5 billion at the end of the quarter an increase of \$153 million from year-end 2003 with total assets of approximately \$13.7 billion. Anthem's total debt of \$1.7 billion was unchanged from year-end 2003 and down \$100 million from June 30, 2003 following the maturity and repayment of our senior 6.75 percent notes in the third quarter of last year.

Our debt to capitalization ratio at June 30, 2004 was 20 percent, down from 24 percent at June 30, 2003. Our reserves for unpaid life, accident and health claims liability were \$1.9 billion at the end of the second quarter, an increase of \$16 million from year-end 2003. We remain confident that our reserves have been consistently and conservatively calculated.

Days in claims payable in the quarter were 49.2 days, down 1.7 days sequentially. Impacting the decline was a further reduction in claims inventory and claims processing time. We saw the time between service and claims payment fall by nearly a day compared with March 31, 2004 while claims inventory declined by 7 percent during the period. We have also included in our press release a reconciliation of our reserves. This disclosure is comparable to the reconciliation provided in our fourth quarter 2003 press release.

However, the 2004 incurred and paid claims data are for 6 months of activity rather than a full 12 month period. The reserve redundancy from year-end 2003 could increase or decrease from the level disclosed in this morning's press release which after all considers only 6 months of prior year claims run out. We calculate the percentage of prior year redundancies to total incurred claims recorded in the prior year in order to demonstrate the adequacy of the prior year reserves. For the 6 months ended June 30, 2004 and 2003, this metric was 1.1 percent and 1.8 percent, respectively.

We would remind you that in 2003 we were heavily influenced by the acquisition of Trigon. Having only 5 months of incurred claims for our Southeast segment during 2002 impacts the calculation of this ratio for 2003. Had the Southeast segment been included for the full year 2002, the 2003 ratio for the six months ended June 30, 2003 would have been 1.6 percent. The reserve reconciliation shows that our 2003 development on claims reserves which were established at year end 2002 was very favorable. We recognized \$32 million in favorable prior period reserve adjustments in the second quarter 2003 net income. While the year end 2003 reserves were established in a consistently conservative fashion to those set at year end 2002, the reserve development is not as dramatic as the prior year when reserve statistics benefited from moderating medical trends.

The schedule also demonstrates that we are paying claims at a faster rate. The amount of claims paid in the current year resulting from claims incurred in the current year has increased from 75.2 percent for the first 6 months of 2003 to 76.5 percent for the first 6 months of 2004. The increase is primarily attributable to our system migration and improved electronic connectivity with our provider networks. The result is our ability to adjudicate and pay claims quicker.

Finally, cash flow used in operations was \$34.4 million in the second quarter. As we anticipated in our first-quarter earnings conference call, cash flow in the quarter was impacted by 2 federal income tax payments totaling \$239 million and long-term incentive

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compensation payments of \$113 million. We still expect our cash flow to approach \$1 billion for the full year 2004.

Our priorities for cash flow are to support continued growth in our businesses, to continue our share repurchase program of which we have \$283 million remaining and to repay debt.

Now here is Larry who will provide our updated earnings guidance for the rest of the year.

Larry Glasscock - Anthem, Inc. - Chairman & CEO

Thanks, Mike. Keep in mind that our earnings guidance is for Anthem only and does not include any results from WellPoint. We are now projecting GAAP net income of \$6.95 to \$7.05 per diluted share for 2004 which represents an increase of 5 cents per share from our previous guidance. This includes 31 cents per share in tax benefits associated with the change in Indiana laws governing the state's high risk health insurance pool and 16 cents per share in realized investment gains.

Consistent with past practice, our earnings guidance does not include the projection of additional net realized investment gains or losses or any share repurchases. Net income per share for the third quarter of 2004 is expected to be consistent with results for the second quarter of 2004 and consistent with our prior expectations.

The operating revenue growth rate for 2004 is expected to be in the 11 percent to 12 percent range. Membership growth for the year should be in the 6 percent to 7 percent range. We will continue to remain disciplined in our pricing to cover medical costs and we still expect cost trends to be in the 9.5 to 10.5 percent range this year. The benefit expense ratio for the year should be in the range of 81.5 percent to 82.5 percent, again consistent with our prior guidance.

Finally the administrative expense ratio is projected to improve by approximately 100 to 150 basis points compared to 2003 with the administrative expense ratio in the 17.4 percent to 17.9 percent range for 2004.

I now want to turn to our pending merger with WellPoint. We are pleased with the Department of Managed Health Care's decision to approve our merger application as we believe this combination provides many benefits to consumers and providers in California. However, we are shocked by Commissioner Garamendi's decision to not approve our merger after more than 8 months of intensive work with his very capable staff. We agreed to several explicit consumer protection commitments and we also agreed to maintain a capital structure that would ensure that WellPoint remains the most strongly capitalized insurer in the state.

Additionally, we also met his challenge to dedicate as much as \$465 million in programs and initiatives that would benefit underserved Californians. We were stunned that the Commissioner chose not to secure these benefits when he withdrew from what had been very productive and cooperative negotiations with both regulators and both companies. All of our conversations with his staff had seemed very positive and we believed that our negotiations were progressing toward an equitable solution.

Both companies are carefully reviewing the decision and evaluating all available options. The response will be to bring legal action in a California State court within the next several days. We remain committed to consummating this merger and to pursuing all possible avenues to do so. We remain convinced that all of the benefits for our customers, shareholders, associates and other stakeholders outlined when we announced this merger can be fully realized when this transaction moves forward.

Now let's open the call up for questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Joshua Raskin with Lehman Brothers.

Joshua Raskin - *Lehman Brothers - Analyst*

Good morning. Two questions. The first, just on the East operating profit, relatively flat year-over-year. Just wondering, are there any sort of factors that are leading to that? I understand that the membership revenues are impacted by the state of New Hampshire but didn't think that would be a particularly profitable account. I guess that was lost. Maybe you can correct me there. That is my first question.

Larry Glasscock - *Anthem, Inc. - Chairman & CEO*

As Mike pointed out, our East segment enjoyed a 5.5 percent increase in revenue compared to the second quarter of last year and we were very happy with that revenue number because again as Mike pointed out, we had the loss of the state of New Hampshire account and that had 30,000 members. That was a profitable account. In fact, we thought it was a very good account and because we remain very disciplined in our pricing, we could not renew it unless it remained profitable. So we let the account go.

The good news I believe is that business in the East continues to do well. Again, as Mike pointed out, the number of additions in membership are almost 70,000, I think 68,000, and that grew 3 percent year-over-year. We continue to feel good about the way we are performing in the East and in New Hampshire. The operating gain as you pointed out in the East was flat sequentially but that had a lot to do with the issues that we discussed.

Joshua Raskin - *Lehman Brothers - Analyst*

Second question, regarding the cost trend versus the pricing -- I guess the discussions suggest that you guys continue to price to meet your cost trends yet we saw a bit of -- I guess the separation in the cost versus pricing in the current quarter with pricing coming down about 50 basis points on a rolling 12 and costs going up 50 basis points. That sort of insinuates that the second quarter was a pretty big dispersion. Just wondering how we should think about that for the rest of a year and how does that translate into a medical loss ratio that was still down year-over-year in the second-quarter?

Mike Smith - *Anthem, Inc. - EVP & CFO*

It is Mike. Let me respond with 3 comments. First of all, the so-called separation in premium yield from cost trend was as expected and is entirely consistent with our guidance that we intend to maintain if not expand our gross margins on a PMPM basis. In fact, through 6 months the gross margin on our fully insured business has expanded, can be calculated by any analysis of the public data to have expanded by more than \$2.00 PMPM. The math, as we have reviewed it in the past suggests that our strategy of pricing to cover cost may in fact result in a growth in premium slower than the growth in cost. We stand by our long-term earnings model of maintaining stable spread and in this instance, have actually enjoyed slightly modest increase in the spread.

With regard to our medical loss ratio guidance, again we stand by prior guidance. We believe that in '03 the medical cost ratio, for a number of factors which have been discussed, was trending toward an unsustainable level and we have guided for medical loss ratio to return to much more traditional and normal levels for the full year. So no surprise and very much in line with our expectations and target and we remain focused on an 81.5 percent to 82.5 percent medical loss ratio for the full year.

Joshua Raskin - *Lehman Brothers - Analyst*

Just as follow-up, it sounds like per member you guys are making more money on the gross margin line and to the extent I guess mathematically if costs go up 10 percent on average for the full year, your pricing could cover that 10 percent dollar amount as opposed to necessarily the percent in trend?

Mike Smith - *Anthem, Inc. - EVP & CFO*

Right, we have given this illustration in the past, certainly not intended to trivialize anyone's analysis but if premiums in a current year were running at \$100 and premium yield was 9 percent yielding a renewed premium of \$109, while costs had been \$80 at an 80 percent medical loss ratio went up by 10 percent to \$88, the comparable margin between the two periods would actually have expanded. Net loss ratio would have moved from 80 percent to 81 percent but real dollar gain from that customer relationship would move up from \$20 to \$21. That is at the heart and soul of the strategy of the Company.

Joshua Raskin - *Lehman Brothers - Analyst*

Right. In terms of how we think about it going forward, should we think about the 100 basis point difference? Is that a good estimate as to what we should expect for the second half of a year, still obviously allowing for gross margin expansion on a PMPM basis?

Mike Smith - *Anthem, Inc. - EVP & CFO*

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Given the comments that Larry made regarding our expectation for cost trends for the balance of a year, I would not extrapolate and conclude that this apparent negative spread continues. We are still optimistic that cost trends can moderate later in the year and we are still disciplined and focused on improving prices to cover whatever those cost trends are. I'm not willing to say to you that the apparent disparity of a premium yield versus a cost trend has been set for any continuing period of time. We make those decisions every day based upon real-time analysis of cost trends.

Joshua Raskin - Lehman Brothers - Analyst

That is helpful. Thanks.

Operator

Ladies and gentlemen, due to the high volume of questions we ask that you please limit yourself to 1 question and then requeue for your follow-up. Patrick Hojlo with CSFB.

Patrick Hojlo - CSFB - Analyst

I want to follow up on this cost trend issue. I was a little surprised to see them up significantly as they were in this quarter sequentially, not that it was a huge number but the former trends being up a little bit I can understand. Outpatient is a little more surprising to me. Can you give us a little more detail on why that trend was up? I know you talked about some specific line items but also what might be done to get that trend down a little bit in coming quarters along the line of your latest comment there, Mike, on the fact that cost trends might decelerate throughout the year?

Mike Smith - Anthem, Inc. - EVP & CFO

Let me first of all repeat the detail. Outpatient visits per 1000 members increased approximately 5 percent with the cost per visit increasing about 6 percent. Larry referenced this as roughly an equal distribution of the drivers. Larry further said and will confirm that utilization increased principally in advanced imaging services including MRI, PET scans, nuclear cardiac studies, etc. We have in place very effective care management and care coordination programs that are being developed across the Company.

Summarily, when asked what are we doing to manage and improve the cost trends, we are piloting advanced care management programs in all regions. Advanced care management at Anthem is a much more customized and personalized strategy to address the needs of the 1 to 5 percent of our members who utilize 28 to 55 percent of medical cost. Further, we are converting many of our provider contracts, particularly our institutional contracts to a DRG basis and the case rate reimbursement arrangements where it is

appropriate and where we are properly aligned with those hospitals.

As we have mentioned on a number of occasions beyond that, we continue to focus on quality based performance incentives for providers. We cited in the past that a vast majority of provider contracts renewed in the current year -- have pay for performance programs embedded in those contracts. So we believe that we are taking appropriate steps to optimize the care experience of our members and believe that over time we will be able to moderate this trend.

Patrick Hojlo - CSFB - Analyst

Is it safe to say that you were a little bit surprised outpatient was up sequentially this quarter?

Mike Smith - Anthem, Inc. - EVP & CFO

I would not call it a surprise and carefully reviewed the comments we made in the first quarter call when we said Anthem was somewhat less bullish than its peers and we were guiding cautiously around both pharma and outpatient trends. It is entirely consistent with what we have been saying.

Patrick Hojlo - CSFB - Analyst

Fair enough. Thanks, Mike.

Operator

Matthew Borsch with Goldman Sachs.

Matthew Borsch - Goldman Sachs - Analyst

Good morning. First, I had a question, I don't know whether you can comment on this at all but on your options as far as the merger closing going forward, have you guys looked at the possibility or have you discussed with WellPoint the possibility of some type of carve out or restructuring of BC Life & Health to take care of that component of the business that is under the California DOI?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

Matthew, this is Larry. When we entered into this agreement with WellPoint we entered into it with the notion of the entire Company being part of the transaction, so again we are looking at every single option available to us. The thing I would remind you of is that BC Life & Health is an important business. While it represents only about 4 percent of our combined revenue, it is a very good vehicle for the non-risk business in California. It is a profitable

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business for the Company and so we are focused on completing the transaction in its totality.

Matthew Borsch - Goldman Sachs - Analyst

Okay, thank you. Back to the earnings and outlook, it seems like unless I'm looking at this the wrong way you took down your guidance on operating cash flow for the year. I believe you had been saying you were expecting it to be a bit over 1.1 billion last quarter and now I think I heard you say approaching 1 billion. Can you just comment on that change?

Mike Smith - Anthem, Inc. - EVP & CFO

No intentional effort on our part to guide you down, Matthew. We remain convinced that cash flow for the full year will be a positive multiple to net income and no intentional effort on my part to reduce that guidance by \$100 million. We still believe it is around \$1 billion and perhaps my choice of the English language here -- sent a signal unintentionally. We remain confident it is around \$1 billion.

Operator

Eric Veiel with Wachovia securities.

Eric Veiel - Wachovia Securities - Analyst

Just a quick follow-up question from that there. Any way to give us a sense of what the time frame after the initial filing with the courts in California would be? Is there a way to get the courts to look at this before the merger agreement expires, which I think is November?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

We are going to file this lawsuit in California just as quickly as we can. Obviously the time frame for when that lawsuit will be heard is going to be set by the court. We are going to obviously make the case that given the nature of this transaction and the size of it, that we want to have as expedited a process that we can. It is too early frankly to tell what this timing is going to look like. But I can assure you that we are going to ask for an expedited review and hearing as we go into this.

Eric Veiel - Wachovia Securities - Analyst

Can you do anything on the share buyback side while this process is continuing to go on?

Mike Smith - Anthem, Inc. - EVP & CFO

The answer is, yes. As soon as we clear inappropriate timelines following this discussion this morning we know of no securities law limitation that would preclude our executing our share repurchase program.

Eric Veiel - Wachovia Securities - Analyst

Than you.

Operator

Norman Fidel with Alliance Capital.

Norman Fidel - Alliance Capital - Analyst

Thanks. The 32 million of redundancies that you highlighted last year in the second quarter as being non-recurring and actually provide for difficult comparisons year-to-year in this quarter, did that mainly apply to the East and is that a factor in the year-to-year operating earnings growth shown for the East?

Mike Smith - Anthem, Inc. - EVP & CFO

Actually it was more specifically in the Midwest and Southeast. It does not contribute to the analysis of East earnings. Very specifically, Norm, last year in the second quarter we identified \$12.5 million of that applying to the Midwest; 2 million, a very small amount to the East; 15.8 million in the Southeast; \$1.4 million in the West. So the 31.7, while it crossed several geographies did not contribute to this year-over-year comparison of East earnings.

Norman Fidel - Alliance Capital - Analyst

Okay, thank you.

Operator

Doug Simpson with Merrill Lynch.

Doug Simpson - Merrill Lynch - Analyst

Are there any -- maybe just walk us through what your repurchase authorization is at this point?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

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The Board -- trying to recall here -- we still have about \$280 million or so -- in fact it's \$283 million remaining from our Board authorization program.

Doug Simpson - Merrill Lynch - Analyst

When was the last time you guys actually bought any stock?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

We haven't bought any stock this year.

Doug Simpson - Merrill Lynch - Analyst

It would have been like last October?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

Yes.

Doug Simpson - Merrill Lynch - Analyst

With the California situation, has the Blues Association had any role in that ongoing debate there, or do you see them having any role going forward at all?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

I'm sorry, Doug, I'm not sure I understood. I didn't catch the first part of your question.

Doug Simpson - Merrill Lynch - Analyst

With everything going on with California insurance commission, has the Blues Association weighed in in any way or do you expect them to?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

No, I don't. Again, they weighed in pretty forcefully when they approved this unanimously at the Board, so I don't expect them to weight in again here?

Doug Simpson - Merrill Lynch - Analyst

Are there any major regional differences that you're seeing in any of the cost or the pricing side as it relates to the competitive landscape?

Mike Smith - Anthem, Inc. - EVP & CFO

Doug, it is Mike. On a broad basis, we would say no. Larry made the comment earlier that we see rational pricing in all of our markets. We recognize that health care is a local market, that competitive dynamics do vary by market but as a general rule, the trends that we reported this morning both in terms of pricing and cost prevail across the entire enterprise. Larry has made specific reference to the fact that customer mix -- that is the mix of government business and business with accounts who have bargaining agreements with organized labor will influence our ability to introduce product design and medical management programs. But the trends that we are sharing with you today are representative of the entire enterprise.

Doug Simpson - Merrill Lynch - Analyst

Okay, thank you.

Operator

John Rex with Bear Stearns.

John Rex - Bear Stearns - Analyst

Just a follow-up. Mike, on your comments about you remain hopeful that Medical cost trends could still moderate in the year. I just wanted to clarify when you think about the potential there, is that primarily on the outpatient side where the hope is? I assume there's nothing that would change on the drug side should that come in?

Mike Smith - Anthem, Inc. - EVP & CFO

John, I would like to remove the word hope. We think that proactivity is the order of the day. As we bring to each market and roll out what we consider to be industry-leading care management programs, their effectiveness is measured as those programs are installed across our client portfolio. We think that the programs that have been designed, conceived and introduced across our enterprise will serve their purpose of assuring that our members get the right care at the right time in the right setting. And at the end of the day yield appropriate optimization of care cost. It is more than a hope, it is a deliberate effort on Dr. Nussbaum's part, on our health care management team across the entire enterprise, to respond to these market activities.

Let's be certain that there are factors in the marketplace, all of you have read recent scientific discussion around the use of statins. All of you are aware that these drugs represent a very large percentage of pharmacy therapy costs for all members in our industry. We are seeing pricing action by Pharma in these drug categories that

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therefore beg for revisiting our co-pays, our deductibles and the tiering of our formulary. That is a very real time interactive process here.

John Rex - Bear Stearns - Analyst

Would the expectation be that the full year trend would come in closer to the lower end of the 9.5 percent? Because you are right in the middle of the range right now of the 9.5 to 10.5.

Mike Smith - Anthem, Inc. - EVP & CFO

I am unwilling to guide you within a range. We're confident that the range describes the most likely outcome but I think it would be unfair and inappropriate for me to try to move you by a decimal point to one end of that range or another.

John Rex - Bear Stearns - Analyst

Some confidence -- just in terms of if I take your language correctly that looking for some potential moderation there, that we wouldn't at least see this tick up in this rolling 12-month tick up any further in the year?

Mike Smith - Anthem, Inc. - EVP & CFO

I stand by our guidance. We are on this issue every day.

Larry Glasscock - Anthem, Inc. - Chairman & CEO

What we have guided again is 9.5% to 10.5% on medical cost trend.

John Rex - Bear Stearns - Analyst

Okay, great. Just thinking then broadly from a modeling perspective, you have talked about in the past of pricing to that cost trend -- so would we expect premium yield if cost trend is 9.5, 10.5 and I appreciate your comments again on gross margin dollars per member -- but should we still think of yield in our modeling 9.5 to 10.5 or should we think of it more in this 9 percent and be looking more for a constant or slightly up gross profit dollars per member.

Mike Smith - Anthem, Inc. - EVP & CFO

The premium yield calculation is really an output of our own modeling and our own financial strategy. I would rather focus you on the fact on a year-to-date basis across all customer groups, across all geographies, we are seeing a per-member per-month yield of the about \$44.52 and we intend to preserve if not slightly

expand that. These calculated premium yields and cost trends again are outputs of the data. Our effort is to continue to price to cover anticipated cost trend to preserve that spread.

John Rex - Bear Stearns - Analyst

Does benefit buy-down have any impact in terms of selling as you talked about in your opening comments kind of a wider price point of product in terms of the calculation we derived. Did you notice that having any impact in the quarter?

Mike Smith - Anthem, Inc. - EVP & CFO

Certainly buy-down and benefit change will influence those drivers and that is why we're very careful to make sure that we offer a very broad product portfolio. By the way, not at all unrelated to what we think is a very exciting announcement of the rollout of our HSA products. But yes, a mix change would change on a running basis those trends and therefore we have got to be disciplined in designing and pricing every single product offered to the market.

John Rex - Bear Stearns - Analyst

Larry, there was an Indy Star article that quoted the commissioner, the Department of Insurance commissioner saying that he would need to see a guarantee in writing from you that the California will not be paying for the deal. Can you shed any light on that or maybe you have no light to shed on that in terms of what he is indicating he would be looking for?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

I don't have any current light that I could really shine on it. All of us get quoted a lot and I can't speak to what he actually said.

John Rex - Bear Stearns - Analyst

That is fair. Thank you very much.

Operator

Scott Fidel with J.P. Morgan.

Scott Fidel - J.P. Morgan - Analyst

Just have a question on the tax rate. It looks like that by my calculation trended down to around 84.5 percent from around 86 percent in the first quarter. Just wondering if there was anything driving that then also what your guidance is for tax rate going forward? Thanks.

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Mike Smith - Anthem, Inc. - EVP & CFO

For the full year, the effective income tax rate will be in the 31.5 to 32.5 percent range for Federal Income tax. For third quarter '04 and fourth quarter '04, the effective tax rate will be 34 to 35 percent, slightly lower than our historical rate due to the additional benefits from the change in the Indiana law regarding the high-risk pool and the addition of municipal bonds to our investment portfolio. Recall that we spoke with you in the first quarter about the fact that now we are a full statutory tax rate payer. We were using an investment strategy to enhance net after-tax yield by moving upwards of 20 percent of our \$6.5 billion portfolio to municipals.

Scott Fidel - J.P. Morgan - Analyst

Should we assume in the out years, '05 and beyond 34 to 35 tax rate now as well?

Mike Smith - Anthem, Inc. - EVP & CFO

Correct.

Scott Fidel - J.P. Morgan - Analyst

Thank you.

Operator

Ed Kroll with SG&A Cowen.

Ed Kroll - SG Cowen - Analyst

Back on the WellPoint transaction, I wonder if you could give us any more color on what those other options might be and specifically is there another agency -- I mean other than the DMHC of course, which has already approved the deal, I mean can you go to the Governor -- can you go to the Legislature -- any other agencies to try to move your case forward?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

Ed, again, I want you to realize that I'm not trying to be evasive here. What I said is that we have a number of options that are available to us. What I can tell you definitively is that we are going to file a lawsuit in California here very shortly and we simply believe very strongly that we have met all of the statutory requirements and that Garamendi has really abused his discretion because again, we remain convinced that we have met the standards. We have a team as you can appreciate, we have been

evaluating very thoroughly what all of these options are. The list is very long and I think it is just premature for us to talk much more about what all of those are.

Ed Kroll - SG Cowen - Analyst

Thanks on that. Quickly on the HSA rollout, just wondering what the ramp costs there are; how much is baked into the guidance this year say at the admin line for building out that product line?

Mike Smith - Anthem, Inc. - EVP & CFO

Insignificant amounts, Ed, not a metric or a detail even worthy of disclosure. And as a part of over \$3 billion of G&A expense for the year, it is de minimus.

Operator

Christine Arnold with Morgan Stanley.

Christine Arnold - Morgan Stanley - Analyst

I didn't catch the yield guidance for 2004. Do you expect yields to improve on a rolling 12-month basis or not?

Mike Smith - Anthem, Inc. - EVP & CFO

It's Mike. I thought Larry did give you a premium yield guidance for the full year, but suffice to say, we are not changing our expectation of average price yield of 9 percent for the full year.

Christine Arnold - Morgan Stanley - Analyst

Okay, 9 percent for the full year. Could you give us some sources of admin ratio improvement in terms of from now till the end of the year, those things that you're working on? That would be great, thanks.

Mike Smith - Anthem, Inc. - EVP & CFO

Sure, happy to do so. First of all, let's set the table and talk about the ratio year-over-year and the decline of 150 basis points recorded so far, Q2 '04 versus Q2 '03. The admin ratio declined 140 basis points on the strength of scale, simply averaging the cost over a larger membership base. We had a decline of 50 basis points from the lower incentive compensation expense, about \$25 million in the quarter, Q2 '04 versus second-quarter '03. We had about a 40 basis point increase for all other items, merit increases and other costs associated with day-to-day operation.

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In addition, I want to point out, however, that the reduction in the metric would have been even higher were it not for a change in the mix of our business. Recall now that at the end of the quarter, we are a 56 percent mix in favor of ASO business versus 53.5 percent last year. The mix would have contributed, therefore, a 40 basis point change. Now, if I think in terms of this for the full year, we see 100 to 150 basis points decline for the full calendar year, with the principal driver being, as we have said before, 3 items. The fact that '03 had the last year of the 2001 – 2003 LTI measurement period in it, and we had recorded the incentive compensation in '03 appropriately. We will not have that program in the balance of '04.

We are continuing to lock down our shared service cost; that is to say noncustomer facing functions, finance, legal, administration, and so forth are not growing on a real dollar basis and, therefore, we are getting the leverage and the ratio of serving a larger membership base with a cost containment strategy in those cost centers. We continue to find opportunities to share best practices. I've cited this one before. We're very, very pleased by the progress that Tom Snead and his team have made at improving the so-called throughput or first pass adjudication of electronically presented claims using technology that is being shared from our Midwest experience. All of those items taken in their entirety confidently put us in a spot where we can guide for a 100 to 150 basis point decline for the full year.

Operator

Joseph France with Banc of America.

Joseph France - Banc of America - Analyst

You're full year guidance for cash flow of \$1 billion from what you actually reported in the first half of the year would seem to require an acceleration of a quarterly basis. You're generating a little over \$300 million a quarter in cash, is there some reason why its accelerating in the second half?

Mike Smith - Anthem, Inc. - EVP & CFO

No, Joe, and in fact it will follow the same seasonal patterns as you have seen in the past. If you track the quarterly cash flow reported last year, you will see some seasonality in cash flow and we remain very confident that we will continue to see expansion. As I tried earlier, and I will try again, if you start with the \$34.4 million use of cash, factor out the excess or sort of all duplicate tax payments -- that is 145.5 million; take out the cash portion of the LTI payment at \$113 million; acknowledge the fact that annual Ohio premium taxes are actually paid, essentially in a single quarter that is \$22 million. So adjusted cash flow in the quarter is \$246.1 million; 103 percent of reported net income. If you map that against prior year quarterly progressions, you will get north of the billion dollars that we have guided for.

Joseph France - Banc of America - Analyst

I can certainly do that. One general question, what are you doing to ensure that employees of the Company remain focused on the operations of the Company while all of the uncertainty about the WellPoint transaction is still around?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

Joe, this is Larry. That has been obviously a very important issue and I am really happy to say that as we have worked this transaction all along, Mike Smith co-lead the integration teamwork and we had 27 teams, probably 1000 associates involved in this. But they were also doing their day jobs so to speak. So we are very happy with the way our people have stayed focused. Since we learned of Commissioner Garamendi's decision on Friday, I have had 2 meetings with all of my direct reports to talk about the incredible importance of staying focused on the business and to meet with all of their associates. I have done an all associates broadcast message. I have sent out memos. I believe we are very focused.

In addition, as you may know, I do manager meetings where I go out and meet with every manager in the Company 3 times a year. Those meetings are coming up here in just a couple of weeks. That will also be one of the topics that I'm going to talk about. I believe, as you know, we are a very metric driven Company that goes all the way down to the front line associate and everyone is being held accountable for continuing to meet their business plan.

Joseph France - Banc of America - Analyst

That is great. Thank you very much.

Operator

Mark Giambrone with Barrow Hanley.

Mark Giambrone - Barrow, Hanley, Mcwhinney & Strauss - Analyst

Mike, I don't want to put you on a spot here but in terms of the change now with the merger or the potential merger, how does that change your personal retirement plans in terms of the schedule?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

We were wondering how long it would take for that question to come up.

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Mike Smith - Anthem, Inc. - EVP & CFO

I will make this easy, Mark. I take an oath of duty and I have a personal commitment to my job in assuring that we do everything we can do create shareholder value. Beyond that, I've got a personal commitment of loyalty to Larry. Boil this down to words that everybody would understand, I ain't going anywhere until this thing is done or until we can be assured that the Company is well positioned to create the value that we have the potential to create. I still intend to, at the right time, adjust my lifestyle to meet my personal priorities. Right now, I don't have a higher priority than working with Larry and getting this done.

Mark Giambrone - Barrow, Hanley, McWhinney & Strauss - Analyst

Thanks. I appreciate it.

Larry Glasscock - Anthem, Inc. - Chairman & CEO

That is pretty clear.

Operator

Eric Veiel with Wachovia.

Eric Veiel - Wachovia Securities - Analyst

Just a quick follow-up on the cash flow and on the days claims payable. Can you quantify for us, Mike, what the 7 percent reduction in inventory meant on a DCP basis?

Mike Smith - Anthem, Inc. - EVP & CFO

I certainly can. We believe again the frame of reference should be around the absolute change in days of 1.7 days, two-thirds of that is attributable to the increase in the pace at which we pay claims from date of service to date of final payment. One-third related to clearing out any inventory that may have been there. A specific on the inventory for those who are interested, our claims inventory was 931,000 claims on hand ready for payment at March 31, 2004. That declined to 861,000 claims on hand at June 30, 2004.

So the clear message here is we're actually very pleased -- we think this is a good bit of news. We're continuing to distinguish Anthem in terms of the service to our members and the service to our providers. Paying claims faster is absolutely in the best interest of all parties. Now in terms of this metric which all of us hate and yet we realize it is perhaps the best metric available for your analysis, you could argue the reduction of inventories, and the increase in pace of paying claims currently presented as compared to the

service date means that the entire 1.7 days is attributable to faster, more efficient payment.

Again Anthem's view is that is very good for the industry, very good for our customers and very good for Anthem's cost structure. Fewer follow-up calls coming through our contact centers, fewer abrasions with our providers and overall a much higher quality experience for everybody involved.

Eric Veiel - Wachovia Securities - Analyst

I appreciate that. Just a second follow-up question, if I could. Do you guys care to offer a view on how the 1-1-'05 new business wins are starting to shape up as we march closer here to the beginning of the renewal season?

Larry Glasscock - Anthem, Inc. - Chairman & CEO

We are seeing I think very good proposal activity for '05 effective dates. In fact, we think they are very similar to what we were seeing last year. If you look at national accounts specifically, what we are seeing is that the average group size for what we are looking at is actually up quite a lot. We remain very optimistic about our new group enrollment for January 1. We are not providing any membership guidance at this stage. As you know, we do that later in a year but all indications are that there is a pretty good pipeline out there where quotes are being asked for and we will put our best foot forward.

We continue to believe we have a lot of the very good competitive advantages and they go back to what we have been talking about for a long time. We have the very broad provider networks, this ClaimsQuest is demonstrating in a very real way the benefits of using the Blue Networks. We have talked about our interactive real-time information system which allows our customer to get the benefit of any adverse notification of any potential adverse drug interactions and other intervention.

We feel very good about our value proposition. We have got a web site that we think stands up very, very well in the marketplace. We are optimistic. We are very disciplined in our pricing so the thing I want to say is yes, there is a lot of proposal activity, but we are going to make sure that we price business in a way that makes sense for us and that we not chase market share. So that is kind of where we see it.

We are very excited about individual growth. If you go back and look at our 12-month record on growth in individual membership it is a very nicely. You know year-over-year we had 8 percent, I believe it was 8 percent growth in small group. We think the membership story for us is a very, very good one. Very good one.

Operator

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Charles Boorady with Smith Barney.

Charles Boorady - Smith Barney - Analyst

Just reserve related questions. Two parts, first you mentioned that you're paid claims faster and I am wondering if you could tell us how much faster on a dollar weighted basis what the change from date of service to date of payment is so we can kind of reconcile that? On the reserve table, which I want to applaud you for providing because it is extremely helpful, the prior period incurred redundancies as a percent of the prior year incurred claims going to 1.1 percent -- that statistic had been rising in '02 and in '03. I recall in the past you pointed to the increase in that percentage as positive directional trend, and I wonder how we should think about the change in direction there?

Mike Smith - Anthem, Inc. - EVP & CFO

Let me take your first question first. The speed in terms of decrease in days required from date of service to date of payment is from about 42.7 days -- I'm sorry, is from 43.2 days to now 42.7 days. I have not weighted that or put numbers to it. I suspect you can do that as easily as I can by taking the reported claims expense and calculating on your own the day claim metric. I would be happy to follow-up later if you choose to do that calculation for you or for anybody else.

Now with regard to Page 10 attached to the press release -- the table. Let's make certain that we're looking at this data carefully. On the right hand side of that table we show at the bottom the redundancy or the prior year incurred redundancy, stated in terms of a percentage of claims incurred for a 12-month period, 1.5, 1.9 and 2.3 percent, respectively. When we move to a 6-month calculation of redundancies recognized claims for the current period, let's acknowledge that that is a 6-month database and we still have additional run out left over the balance of a year.

What we know today is that when we do this table for the full year ended December 31, 2004, that number will not be 1.1 percent. It will be a different number as we fulfill the run out. I would like to give you several other details that may help bridge an improved understanding of the 1.1 versus the 1.8 percent. The Trigon acquisition influenced the 2003 calculation. Having only 5 months of incurred claims for the Southeast segment during 2002 -- recall that transaction closed July 31, impacts the calculation of the ratio for the 2003 6-month period. If we have had the full period of Trigon's activity in there, the metric that we would be comparing the 1.1 to would not be 1.8, it would be 1.6.

Further, the June 30 ratio was also favorably impacted by the recognition of the \$31.7 million in net favorable prior year reserve releases back to Norm Fidel's question. The current year has no prior year reserve releases; therefore, if I take the 31.7 out of the

'03 data, this comparison is a much more tight alignment at 1.1 versus 1.3. So my analysis of this data is that we were very adequately reserved at year-end 2003 -- that is being validated after 6 months by acknowledging the \$135.8 million. We acknowledge that the 181.6 includes the 31.7 and that the calculation of 1.8 is influenced by the fact that the claims incurred in the period is a contributor to that algebra that only has 5 months of data in it.

So quite frankly, I'm not disturbed by this comparison at all, the 1.1 to 1.8. I think it is entirely consistent if we go back and look at prior year redundancies. On a 6-month basis, it is not as outlying as it appears on this data when it is compared to full year run out.

Charles Boorady - Smith Barney - Analyst

I appreciate that and there is no question that your reserves are adequate. But more directionally, Mike, when you make the adjustments that you pointed to still directionally in the 6-months over 6-months, it still changed directions from where they directional historically it went and historically, I understood the increase in that ratio was that we should interpret that as something positive. And so now that that ratio is going the other direction, that sort of just raised that question. Also why isn't there a favorable development from last year? Is it really fair to fully take that out of last year is a separate question? But even if you do that, the direction has still changed and how should we interpret that and what should we expect going forward?

Mike Smith - Anthem, Inc. - EVP & CFO

My own view is you interpret it by making the implicit comparison then of where -- the rate at which costs were moderating following the establishment of the 12-'02 reserve as compared to what we now know to be a slower rate of moderation or closer to stable trends following the establishment of the reserve at 12-31-'03. We and a rest of the industry appropriately priced in the fourth quarter of '02 and throughout '02 anticipating a trend that then moderated and moderated at a faster pace than trends are changing downwardly now.

This is not a function of anything in my judgment other than the relative rate of change in trend and in effect the aftermath of having wisely priced to cover trend and then enjoy the benefit of greater than expected moderation. So directionally in terms of our efforts round pricing our reserve setting, you should not draw any conclusions that Anthem is pricing and higher risk or that Anthem's actuarial process is taking conservatism out of its reserve setting. We would simply observe that the industry, Anthem included, following year-end 2002 enjoyed a period of where prices that had been set prospectively were matched against an acceleration in the rate of moderating cost trends. Those relative rates are a different dynamic following the 12-31-'03 year end.

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Larry Glasscock - Anthem, Inc. - Chairman & CEO

Thank you, Mike. In closing, let me just make a couple of observations. First of all, our enrollment increased 891,000 members or 8 percent over June of '03. As Mike pointed out also, our administrative expense ratio improved 150 basis points. Our net income per share increased 33 percent. We have raised our expectations for '04 to now a range of \$6.95 cents to \$7.05 per share and both we and WellPoint remain absolutely determined to complete this merger.

I just want to say that we are very optimistic about the future. We remain very committed to delivering on our promises and in the interim we will continue to dedicate ourselves to providing our customers the distinctive service that they have come to expect from us and profitable growth for our shareholders.

I want to thank each and every one of you for your interest this morning. I hope you have a great day.

Operator

Ladies and gentlemen, this teleconference will be available for replay beginning today at 3:30 and running through August 10. You may access the AT&T Executive playback service that anytime by dialing 800-475-6701; international participants may dial 320-365-3844, and your access code for this conference is 691032. Again the toll-free number is 800-475-6701; international is 320-365-3844, and your access code for this conference is 691032.

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